

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

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Checks THAT EARN DIVIDENDS



THOUSANDS of banks are enjoying extra dividends of appreciation and customer good will by supplying Todd Super-Safety Checks—by telling depositors why they supply them—and by calling attention to their features of distinction and safety:

1. *Super-Safety Checks have an unexcelled writing surface.*
2. *Super-Safety colors are clean and attractive. The paper is crisp and strong, and the lithographing is expertly done.*
3. *Attempts at fraudulent alteration of Super-Safety, by means of ink eradicator, destroy the surface design and develop the cancelling words VOID.*
4. *Super-Safety insurance further protects banks and depositors against loss from frauds these checks are designed to prevent.*

Furnishing depositors with these distinctive, safe checks is one of the many things a bank can do to please present and prospective customers. We have described twenty-four more in our booklet, "Two Dozen Ways To Make Friends For A Bank." Would you like a copy, gratis? No obligation.

Todd
COMPANY, INC.
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OFFICES IN ALL PRINCIPAL CITIES

The Condition of BUSINESS

OUTLOOK. The prospect and general expectation of better business this Fall are evident in most available reports and are based on fairly substantial ground, as well as on a certain amount of eternal hope. The general outlook, while clouded as usual these days with most of the ills known to commerce, contains favorable factors bearing on the immediate future.

WAR AND 1940. The question of war or peace continues to dominate the whole business picture, not only because of the direct effect that a war would have on trade and industry, but also because of the tremendous influence it would have on the referendum in 1940. Naturally business men would like to know how the public feels about the economic issues, whereas a chaotic international situation would distort these issues beyond recognition.

CROSS INDEX. BANKING's index of the general trend of business, obtained from a poll of 3,000 bank directors and bank presidents in all sections of the country, compared with the previous month, shows an improvement.

Thirty-nine per cent of those polled for the purpose of this summary said business was getting better, 41 per cent found conditions about static and 20 per cent reported a decline. This compares with a month before when 36 per cent said that the direction was up, 42 per cent reported that their respective enterprises were holding their own, and 22 per cent reported an unfavorable trend.

Here is a tabulation of the poll for the last six months, giving percentages of replies under the three general questions asked:

	UP	UNCHANGED	DOWN
February	39	38	23
March	39	46	15
April	34	40	26
May	35	35	30
June	36	42	22
July	39	41	20

HARD KNOCKS. A certain amount of optimism about the months ahead is justified by this recent record. There was a slow decline in activity from January on but it was not enough to get upset about and the seasonal slowing up generally expected during the Summer months has been conspicuous by its absence. The fact that trade has managed to keep its head up in the face of a situation which could not have been worse from a psychological standpoint, should inspire confidence. Business has survived the school of hard knocks in good style.

BUSINESS AS USUAL. Courageously maintaining "business as usual" in the face of conditions which are anything but usual, and in many cases do not even make sense, is reason for confidence. "Business as usual" with another world war just around the corner . . . citizens on relief organizing against the Government . . . a forty billion dollar national debt that is actually much bigger if we include all the commitments and guarantees and a debt that is going rapidly higher as deficit follows deficit . . . a Government that is finding more and more ways to spend money without having it appear in the budget . . . an apparent feeling in official quarters that this headlong progress toward somewhere or other is perfectly normal and all right . . . with the Government burying billions of dollars' worth of gold in a remote corner of Kentucky . . . with the Government burying tons of silver in the woods near West Point . . . with the Treasury spending millions of dollars monthly for silver that nobody wants . . . in this silver buying process helping

to subsidize a foreign country which has taken private property from American owners and refused to pay for it . . . with the Government sponsoring loans of millions of dollars to countries already in default on the assumption that this time it will be different . . . with the highest volume of bank resources in history, the lowest interest rate and the lowest actual demand for capital in history . . . and so on ad absurdum.

There is very little that is normal and usual in the current outlook that business can recognize and rely upon.

BUSINESS AND GOVERNMENT. The relations of business and government have improved to some extent and it is not uncommon to hear favorable comment by businessmen formerly critical on the turn of events in Washington. Among the favorable developments bringing about this change should be noted the adoption by Congress of certain modifications of the tax laws and also some appeasing changes in regulations by the Labor Relations Board embodying reforms long demanded by business. The utilities, moreover, have been encouraged by signs of a new attitude in Congress regarding Government competition in this field.

1940 APPROACHES. Looking at matters from a long-range viewpoint, the major effort of the Government henceforth will probably be more in the direction of helping business. This is a safe guess because of the approaching elections in 1940, if for no other reason.

SELF-LIQUIDATING SPENDING. The spending obsession still seems to be in control of men and motives in the capital city, although more and more frequently the operation of transferring dollars from the Treasury to citizens is called lending. It is a very disturbing thing to observe what slick new ways can be thought of to avoid facing the deficit music.

Incidentally, there has been less interest on the part of business communities in the new lending program than might normally have been expected. One reason is the general belief that the actual benefits to private business would be small. There is little likelihood, for example, that the volume of credit put out under the plan would be as great as the figures might indicate. It is safe to say that this would be true, as long, at least, as the operations are under the control of Mr. Jesse Jones, the new administrator of the Government's lending agencies, whose feet have usually been in close contact with the ground.

PRODUCTION UP. Industrially, the outlook is encouraging. Steel manufacturers have decided that the second half of the year is going to be good. There was a decline in production during the July holiday period but the volume immediately rebounded. Automobile sales in June were 80 per cent above those a year ago and this contra-seasonal movement has continued through the Summer months. The new models will be out sooner this year than heretofore and this means an earlier demand for materials and equipment.

OUTLOOK IN FINANCE. Financial conditions show little change from recent trends. There has been a small increase in the use of bank capital for commercial purposes and this has given rise to optimistic views. Imports of gold slowed up a little in the second quarter.

The trend of money rates under the steadily increasing volume of idle money is naturally downward and the difficulty that banks have in making satisfactory earnings under the circumstances, is engaging the attention of Reserve and other Federal authorities.

WILLIAM R. KUHNS

If I had a blue pencil, *I could edit this paper myself!*



• This is a reprint of an advertisement of a stock insurance company directed to the independent business men in the publishing field in your city.

The commercial bank, like the publisher, is a middleman. Its customers and its directors are chiefly independent business men—representative of the American Business System.

TOO BAD he can't try it! Every editor knows how simple his job looks from the outside. But every editor and publisher knows that the newspaper, the magazine is a middleman in the field of news, ideas, and information. It justifies its services and its cost in typical American fashion to reader and advertiser alike by skill and experience developed through years of familiarity with its daily problems, always different, yet always the same.

To gather, to edit, and to print is no job for the amateur. But the better the job, the simpler it looks on the completed page.

And because he knows the value of skill and experience in his own field, the editor, the publisher, the master printer—does not just say, "\$50 worth of insurance, please." He asks for and gets the advice and full service of an expert purchasing agent in the complex insurance field, like himself an expert middleman. No worries about uncovered risks that might wreck a business.

* * *

Because we believe so thoroughly in the services of an expert middleman whether editor, publisher, or master printer, insurance agent or broker, we refuse to accept business direct because it is not in the interest of the Company or the assured to do so. When *you* buy National Surety Fidelity Bonds, Surety Bonds, Burglary or Forgery Insurance through your local insurance agent or broker, you deal with a customer and friend who is a fellow member and supporter of the American Business System.

NATIONAL SURETY CORPORATION

VINCENT CULLEN, President

WASHINGTON

Guaranteed Bonds

BONDS FULLY GUARANTEED by the Federal Government issued by the United States Housing Authority will come upon the market in large volume in the next few months. The RFC also has not yet completed its placement of guaranteed securities to reimburse the Federal Treasury for the latter's advance to the Corporation. Altogether there will be a big lift in the total of such securities in the hands of investors.

At the end of the last fiscal year the outstanding volume of all Government-guaranteed securities was \$5,485,000,000—\$2,954,000,000 for the HOLC, \$1,385,000,000 for the Federal Farm Mortgage Corporation, \$823,000,000 for the RFC, \$115,000,000 for the United States Housing Authority, and the rest for the Commodity Credit Corporation, FHA, and a few minor agencies. As a result of the interplay of demand and supply there is rather close coordination of this sort of financing of the Government in the market which will certainly not be lessened under the administration of Jesse Jones as commander-in-chief of all Government loan agencies under the reorganization program.

Federal Loan Administrator Jones

SPEAKING OF MR. JONES, it is significant that the new Administration loans-to-industry bill embodying the Government's latest ideas on stimulating business recovery, turns to the RFC as the chief vehicle for handling the loan program and Mr. Jopes, as Federal Loan Administrator, will boss the job. Meanwhile, the RFC has a new chairman, Emil Schram.

Reorganization

TREASURY DAILY STATEMENTS now show the financial activities of three new Government agencies—the Federal Loan Agency, the Federal Security Agency, and the Federal Works Agency. These are the product of Government reorganization. The statement also marks the disappearance of a dozen or so of minor agencies from the financial operations of the Government,—consolidation but no decrease in actual activity though in time there may be important economies and certainly better coordination of the Government's operations.

Loan Insurance Premium

THE LOAN INSURANCE PREMIUM of $\frac{3}{4}$ of 1 per cent charged banks and other lenders by the FHA for insuring property improvement loans is not expected to reduce materially the volume of such loans though the reduction in the return to the lender is material. Up to June 20, the fifth anniversary of the Administration, the latter had insured 2,025,000 property improvement loans in the amount of \$827,000,000. Unrecovered claims paid up to June 1 amounted to approximately \$13,800,000, or less than 2 per cent.

New Home Construction

THE FHA REPORTS that in the first five months of the current year insured mortgages to cover new home construction increased by 80 per cent over the same period in 1938. At present about 500 single family houses are started every working day while property improvement undertakings range about three times that number.

SUMMER NEWS-GATHERING

The Washington newswriters have been reinforced by the Washington newscasters, the latter (right) having quarters in the Capitol. These radio reporters share full press privileges with the correspondents, some of whom are shown (left) leaving the White House



INTERNATIONAL



HARRIS & EWING

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AS YOU READ OUR Statement of Condition, you who are our correspondents, remember that your funds are here reflected in our funds. Your statement is a part of our statement.

In our daily contacts we are ever mindful of the fact that the service you render us is as important and useful as the service we render you.

Mutual confidence and cooperation are the basis of sound public and private relationships.

... THE ...

PHILADELPHIA NATIONAL BANK

ORGANIZED 1863

PHILADELPHIA, PA.

**Capital, Surplus and Undivided Profits
\$41,000,000**

Member of Federal Deposit Insurance Corporation

HOLC Property Sales

THE HOLC REPORTS that it sold 4,159 homes held under mortgage in May as compared with 3,761 in April, 3,376 in March, 2,391 in February and 2,390 in January. Sales, rentals and collections so far this year have shown constant improvement over last year. The Corporation looks for an active real estate market this year.

Arbitration

THE FORMATION of a United States-Canadian Commercial Arbitration Commission to handle business disputes in both North and South American countries is announced. Its chief initial activity will be to promote the insertion of an arbitration clause in all inter-American commercial contracts.

Guaranteed Bonds

AT THE END of last December all banks in the deposit insurance system owned 51 per cent of the issues of various agencies guaranteed by the Treasury. At the end of March member banks alone held 52 per cent. Doubtless the preference of many banks for these issues was due originally to the higher return they carried, but this return margin is rapidly disappearing as the issues are refunded. Some of the issues, however, have special advantages. If, for example, HOLC issues should go below par they can be used to pay the principal on home loan mortgages at their face value.

HOLC Savings

THE REFUNDING of over \$900,000,000 of 2½ per cent HOLC bonds into a new series of 1½ per cent obligations together with the refunding of \$325,000,000 of the Corporation's bonds in June will save that organization a total of around \$14,500,000 a year and will, in fact, place it in a position where it can commence to build up an adequate reserve against losses on the \$555,800,000 of real estate it has for sale—all this, of course, provided Congress does not interfere by reducing the interest rate on the mortgages it holds. Losses on sales of real estate are serious. They average around \$1,200 per property when all expenses of foreclosure, lost interest, unpaid taxes, insurance, cost of sales and the like are included.

Housing Authority Financing

THERE IS PROSPECT of considerable business for banks in temporary loans to local housing authorities operating under the United States Housing Authority. The locals can borrow money

on short term to initiate their operations pending the receipt of funds from the Federal Government. The temporary loans are secured by an agreement from the USHA that it will make available on or before maturity of the notes funds equal to the principal and interest on the notes given by the local authority. Such an agreement is known as a "requisition agreement" and the arrangement bids fair to become quite common. It may be noted, incidentally, that \$800,000,000 of the President's new loan program consists of the enlargement of the Housing Authority's borrowing powers provided for in a separate measure. The Authority's financing will be one of the important features of this year's financial developments.

Relief Is Regular Expense

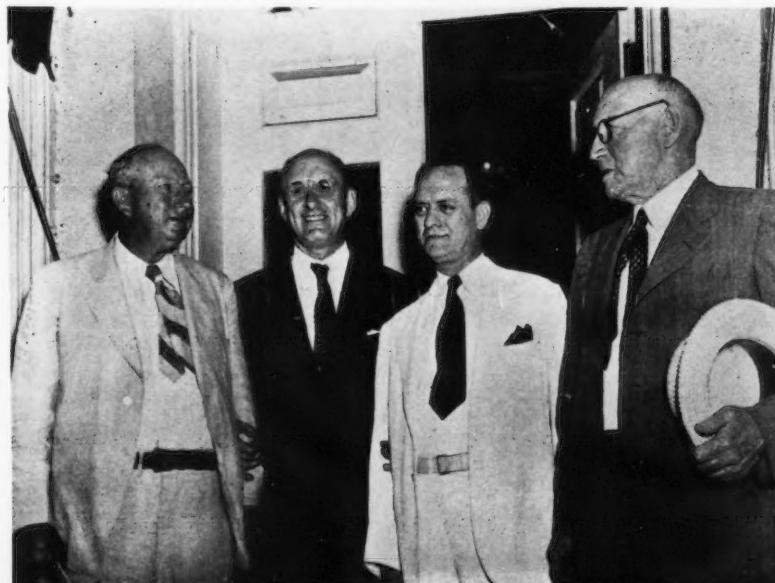
UP TO JULY 10, the beginning of the new fiscal year, the Federal Treasury segregated the Government's expenditures for relief from other expenditures. In the new fiscal year outlays for relief are counted as regular expenditures of the Treasury. The new method is generally accepted as sounder bookkeeping than the former method but it carries implications of permanent outlays for relief which don't sit very well in the mind of the average tax payer.

Public Debt

THE GOVERNMENT STARTED its new

CONGRESSIONAL TAX STUDY

Congress, through the tax sub-committee of the House Ways and Means Committee, is to survey the Federal tax system. The project was announced, after a White House conference, by, left to right, Senator Harrison, chairman of the Senate Finance Committee; Secretary Morgenthau; Representative Jere Cooper of Tennessee, a House Ways and Means Committeeman; and Representative Doughton, of North Carolina, committee chairman



HARRIS & EWING

fiscal year with a public debt of \$40,439,532,411. It had a working balance in the Treasury of \$2,144,061,725 and the country's stock of monetary gold was \$16,110,049,756. Total receipts of the Government in the last fiscal year were \$5,667,823,625. No country has ever been able to issue such a financial statement in its combined good and bad features.

Tax Exemption Elimination

EVEN WITH CONGRESSIONAL approval, the proposed termination of the exemption of Federal, State and municipal securities from taxation is not to have plain sailing. Practically all officials of State and Municipal governments are opposed to the change and already there are threats that if local government securities are taxed the state and municipal governments will proceed to tax Federal property within their borders. It is becoming more and more evident that only a comprehensive revision of all tax systems into one coordinated whole will prevent increased conflict and confusion in a situation which is already confused, complicated and fraught with conflicts of authority.

SEC Expansion

THE SECURITIES AND EXCHANGES Commission has informed Congress that the international situation has made the establishment of a foreign

Another "no Account" Check!



● What does a "no account" check cost a bank? How much time — inconvenience — and perhaps embarrassment could be saved if this evil could be wiped out? And how much actual money would the merchants in your community save if they didn't have such checks charged back to their accounts from time to time.

"Safety Numbering" creates a system of control in the distribution of blank checks to your customers which effectively checks this criminal activity. It isn't costly but certainly does its job well.

Have you read our latest booklet on this subject? If not, it will be promptly sent upon request.

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COMMERCIAL INVESTMENT TRUST INCORPORATED



COMMERCIAL INVESTMENT TRUST Incorporated, with capital and surplus in excess of \$57,000,000, provides a nation-wide sales finance service through subsidiary companies with a network of branch offices throughout the United States. This service, which consists of purchasing self-liquidating accounts, extends to automobile dealers, household appliance dealers, and to manufacturers and dealers in many lines of industrial, commercial and professional equipment, including the heavy goods industries.

C. I. T. offers its standard notes for short term accommodation in varying amounts from \$1,000 to \$100,000, maturities from 60 to 270 days and at current discount rates. These notes are payable at any of our 279 depositary banks located in principal cities throughout the country.

Latest published financial statement and list of depositary banks will be mailed upon request.

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Treasurer,
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1 Park Ave., New York, N.Y.

branch office "a virtual necessity"—hence an additional appropriation. Each Congress adds new duties to new bureaus as well as to old ones in a constantly widening circle of governmental activities in the regulation of business as well as the daily lives of the people.

State Trade Restrictions

ACCORDING TO A SURVEY made by the Bureau of Agricultural Economics, only two states added to interstate trade restrictions during this year's legislative sessions while 12 refused to extend restrictions. Many states reported fair prospects of a repeal of some of the existing restrictions in the next legislative sessions. It is believed that at least the movement which has done much to restrict trade between the states, especially in food products, has been halted.

Social Security

IN THE FISCAL YEAR just ended collections by the Treasury for account of the unemployment trust fund amounted to \$838,087,109 as compared with \$762,832,518 in the previous year. Investments for account of the fund during the past year, however, amounted to only \$395,000,000 as compared with \$559,705,000 the year before while

benefit payments in the way of withdrawals by state governments amounted to \$441,795,000 as compared with \$190,975,000 the year before. In the old age reserve account collections amounted to \$529,951,054 as compared with \$402,412,232 the year before. Investments last year amounted to \$514,900,000 as compared with \$395,200,000 while benefit payments amounted to \$13,891,583 as compared with \$5,404,062. Increased unemployment led to the increase in the distribution of some of these collections but the fact remains that \$1,368,038,163 was collected in the way of taxes upon industry and other lines of business in addition to high normal taxation.

Silver

"MEXICO has been the chief, and indeed the outstanding, beneficiary of our silver policy in Latin America," said Senator Townsend of Delaware, long an opponent of the silver program. "Of the \$237,000,000 we have paid for Latin American silver since 1933, \$217,000,000 has been paid to Mexico. How well the past six years' buying of Mexican silver has worked out there, the public may judge for itself."

GEORGE E. ANDERSON

"I like meeting
the men who matter"



"I always stop in at the American National when I'm in Chicago because there I see the chief executives—the men who matter. And I'm sure of gaining some new idea or viewpoint that will be helpful to me back home."

* * * *

Every account is important to us.



Our executive officers give their personal attention to serving our bank customers, and back of them is a complete service organization . . . We would like to have you meet our officers and inspect our facilities. Won't you come in on your next Chicago trip? You'll find a ready welcome.

AMERICAN NATIONAL BANK
AND TRUST COMPANY
of Chicago

LA SALLE STREET AT WASHINGTON

Member Federal Deposit Insurance Corporation

"Unforeseen events... need not change and shape the course of man's affairs"



"HEROISM FEELS AND NEVER REASONS..."

Emerson

Children are instinctive heroes. When something they love is in danger they act impulsively, with never a thought for their own safety.

It's up to you to make allowance for the child's psychology. Drive carefully always. Redouble your vigilance in school and residential neighborhoods. *Heroes deserve the right of way.*

The Maryland, through posters, cards and leaflets in public schools, teaches youngsters how to avoid danger on

the streets. In addition, Maryland safety men instruct drivers of commercial fleets in the ways of safety. And, in advertisements like this, a continuing effort is made to enlist your help in reducing the number of traffic fatalities.

* * *

About 3,400 children will die in automobile accidents this year. A large proportion of these accidents would never occur if drivers were ever alert. Won't you do your part. Maryland Casualty Company, Baltimore.

THE MARYLAND

The Maryland writes more than 60 forms of Casualty Insurance and Surety Bonds. Over 10,000 Maryland agents are equipped to help you obtain protection against unforeseen events in business, industry and the home.

Industry and business in general have already benefited by the use of
COMPTOMETER AND COMPTOMETER METHODS . . .

And now

A COMPTOMETER *Specifically* FOR BANKS!



- In every business and industrial field, COMPTOMETERS and COMPTOMETER METHODS contribute to the efficient, economical handling of vital figures.

Now, the makers of the COMPTOMETER have perfected a new COMPTOMETER unit *built specifically for banking use*.

The new COMPTOMETER BANK PROOF UNIT has already achieved substantial economies in time and money, by applying GREATER SPEED, COMPELLED ACCURACY and SIMPLIFIED ROUTINE to two distinct phases of banking procedure.

First: to the proving of deposits AT THE SOURCE, eliminating the expense of catching errors in distribution.

Second: to the proving of postings of INDIVIDUAL ACCOUNTS by means of the COMPTOMETER.

A COMPTOMETER representative will be pleased to demonstrate the economy-features of the COMPTOMETER BANK PROOF UNIT . . . show how they apply to your institution's routine.

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COMPTOMETER

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BANK
PROOF
UNIT

JUST A MINUTE

Don't Miss It

WE MEAN September BANKING, the Yearbook Number. The theme is *Know Your Bank*, and the contents, we hope, will prove stimulating, practical and interesting. Important trends of the past year, particularly in banking, finance and business, are being covered in articles and pictures. Also, there'll be a special section, liberally illustrated, on the Northwest and the Annual Convention of the American Bankers Association at Seattle, September 25-28.

So—as the Circulation Department would say—Remember September!

Meanwhile, August

Summer is supposed to be a dull time editorially. The Constant Reader occupies one of three statuses—on vacation, pre-vacation or ex-vacation—and whichever one it happens to be, he is traditionally immune to all reading but the lightest fiction.

BANKING, of course, doesn't hold with that theory.

Now go on with the issue.

Two Per Centers

While the editors were going over the clearinghouse reports that provided the information for "The Interest Rate Points Down" (page 19), this thought cropped up:

"What about the fellow who owns the money? In the G.O.Days thrift used

to bring its own reward in the form of compound interest at a rate that assured a comfortable accretion of principal and encouraged regular investment.

"Now, due to conditions which are no less inexorable or unfortunate because of their familiarity, the saver may well feel that thrift has been penalized. Although saving, thank goodness, still goes on, its investment features have had to be minimized.

"Maybe we've stopped being a 4 per cent, or a 6 per cent, or an 8 per cent country, and are going to be 2 per centers or 1 per centers or no per centers indefinitely.

"Maybe it's foolish to save.

"Maybe"—but just then some one came in and we started thinking rationally again.

Lewis on Wills

Fortunately for BANKING's readers, Reuben A. Lewis, Jr., executive vice-president of the Metropolitan Trust Company, Chicago, let his curiosity get the better of him. He wanted to know the most common mistakes made in wills, so he sought the information from 200 trust officers.

He got what he went after—a mailbag full of it. And then he boiled down the replies into the flaws which are the basis of his informative article on pages 26 and 27.

BALTIMORE CIVIC JOB

A banker, an attorney and a physician make up the new Maryland State Board of Liquor License Commissioners for Baltimore City, which is now engaged in a campaign to clean up undesirable conditions in some of the city's retail alcoholic beverage outlets. Left to right, C. Delano Ames, public relations manager, Maryland Trust Co., Charles T. LeViness, 3d, chairman, and Dr. Joseph L. Valentini



SPECIALISTS IN

UNITED STATES GOVERNMENT SECURITIES

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OTHER AGENCY ISSUES
TERRITORIAL AND
MUNICIPAL BONDS

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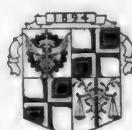
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SINCE 1894



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"MISTAKES AVOIDED, WORK GOES FASTER IN OUR LIGHT-CONDITIONED OFFICE"



says H. R. HUMMEL, *office manager of
The American Agricultural Chemical Co.
Cleveland, Ohio*

SINCE we light-conditioned our office, mistakes have been avoided, and the good lighting has made our work faster and easier to do," according to Mr. Hummel. "Much of our work is done with indelible pencil, and a good bit of it at night. It's close work and care must be taken to avoid mistakes. I can't say too much for the improved lighting in our office, and our people appreciate it too!"

Good light for doing accurate, close-seeing work



is a necessity in banks, too. It helps everyone see more easily, work with less fatigue, and do a more efficient job. Many of your customers, like the American Agricultural Chemical Company, use the new G-E MAZDA lamps. These lamps are brighter than ever before, and give more light at no additional cost for current.

For a free copy of the valuable booklet, "Light for Seeing in the Office," write General Electric Company, Dept. 166-B-H, Nela Park, Cleveland, Ohio.

G-E MAZDA LAMPS GENERAL ELECTRIC

500 watt G-E MAZDA lamps in modern fixtures placed on ten foot centers help light-condition this office for easier seeing and better work.



"Boy! She endorsed it with her telephone number!"

G. S. B. Theses

To the Editor:

In an article in your May 1937 issue Dr. Harold Stonier discusses the thesis projects of members of the Graduate School of Banking, and infers that the content of these theses, of interest to all students of banking, might be made available to others. I am writing my doctoral dissertation at the University of Chicago on the personal loan phase of commercial banking and as this topic was one of those mentioned by Dr. Stonier I would appreciate any help you could give me in getting access to the theses in this particular field.

WALLACE P. MORS
Instructor in Economics
De Paul University
64 East Lake Street
Chicago, Illinois

Catalogs of Graduate School theses were issued in 1937 and 1938, and a catalog for 1939 will be issued later this year. These catalogs can be obtained from the American Bankers Association offices in New York, and theses which can be loaned are in possession of the Association's Library, 22 East 40th Street, New York City, for that purpose. Because of the many demands on this valuable material, each borrower may keep a thesis for only one week.

Life Insurance as Collateral

To the Editor:

You may recall a short time ago we had some correspondence regarding the subject of automobile financing. The an-

nouncement which appeared in BANKING resulted in my receiving numerous requests and to date approximately one hundred copies have been distributed.

As you know, it is a difficult matter for banks to obtain satisfactory earning assets and in addition to automobile loans we have found that loans secured by assignment of life insurance policies are desirable. In connection with a study of this subject I am trying to obtain as much valuable material as possible and would appreciate receiving the names of any books or articles which you may have in mind. I am reading Mr. Tait's book and find it very interesting. However, much of the material on this subject is of a technical nature and it is my intention to prepare a paper presenting the subject in a more practical way.

Any assistance you care to offer me will be greatly appreciated.

R. A. BEZOIER, *Cashier*
The First National Bank
Rochester, Minnesota

The following bibliography was prepared by the Library, American Bankers Association:

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is engaged primarily in facilitating wholesale distribution and retail sales of the following products of General Motors Corporation and its world-wide affiliates: CADILLAC, LA SALLE, BUICK, OLDSMOBILE, PONTIAC, CHEVROLET automobiles; FRIGIDAIRE appliances for refrigeration and air conditioning; DELCO lighting, power and heating equipment; GMC trucks; BEDFORD, VAUXHALL, OPEL, BLITZ—

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Statement of Condition, June 30, 1939

RESOURCES

CASH AND DUE FROM BANKS.....	\$12,484,303.69
*U. S. GOVERNMENT SECURITIES.....	9,167,127.93
STATE, COUNTY AND MUNICIPAL SECURITIES.....	4,593,362.15
FEDERAL RESERVE BANK STOCK.....	106,050.00
OTHER BONDS AND SECURITIES.....	360,871.07
LOANS AND DISCOUNTS.....	16,012,131.11
INTEREST EARNED BUT NOT COLLECTED.....	182,732.03
BANK PREMISES.....	1,619,854.00
FURNITURE, FIXTURES AND VAULTS.....	106,475.35
OVERDRAFTS.....	4,147.37
CUSTOMERS' LIABILITY ON LETTERS OF CREDIT AND ACCEPTANCES	48,792.24
*\$4,535,245.82 U. S. Government Securities Pledged to secure Public and Trust Department Funds.	\$44,685,846.94

LIABILITIES

CAPITAL STOCK COMMON	\$ 1,750,000.00
CAPITAL STOCK PREFERRED.....	1,250,000.00
SURPLUS AND UNDIVIDED PROFITS.....	1,030,684.62
SPECIAL RESERVES	122,735.49
INTEREST COLLECTED BUT NOT EARNED.....	81,700.19
LETTERS OF CREDIT AND ACCEPTANCES.....	48,792.24
DEPOSITS	40,401,934.40
	\$44,685,846.94

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

Schaefer, Leon. *Loans Secured by Life Insurance Collateral. Bulletin of the Robert Morris Associates*, October 1938, p. 105.

* Skinner, R. M. *We Encourage Life Insurance to Increase the Safety of Our Loans. Bankers monthly*, October 1933, p. 548.

* May be borrowed from the Association's Library.

Repeal of Law

STATE BANKERS were especially interested in one provision of a Federal bill which became law on June 20. This provision repeals paragraph (1) of subsection (y) of Section 12B of the Federal Reserve Act, which would have required a non-member, insured state bank having average deposits of \$1,000,000 or more during 1941, in order to continue to be insured by the FDIC after July 1, 1942, to become a member of the Federal Reserve System.

The State Bank Division of the American Bankers Association has informed its members that much of the credit for this change in the law should go to Chairman Henry B. Steagall of the House Banking and Currency Committee, which added the provision to the original bill.

One Economy

IT WAS 10 years ago that the size of paper money was reduced one-third. Since then, Treasury officials estimate, about \$18,000,000 has been saved by the reduction. In the 10-year period 9,339,917,777 bills have been printed, ranging in denomination from \$1 to \$100,000. The latter are kept in a museum, and nothing higher than \$10,000 is in circulation. The smaller bills cost just under a cent each.

Forty Plus

Among recent callers was a gentleman from the Forty Plus Club of New York who settled into an editorial chair and said:

"Even under normal conditions the problem of the unemployed executive of 40 or over is a difficult one. It is still more difficult under present conditions which have resulted in the dislodgement of more of those men than ever. And, with the amount of unemployment, businesses seeking men have much material to pick from."

"On the other hand, it would seem that there was greater need than ever for the maturity and sound judgment usually found in the Forty Pluses."

"Now this is the way the Club works: All of its 200 members are 40 or over, all are American citizens, and all are

BANKING



LOCAL PRIDE

An interesting way to advertise your city's progress

executives who have earned at least \$4,000 annually in previous connections. The club is endeavoring to counteract, through personal contacts in industry, opposition to the employment of men who have reached the two score mark.

"In no case may an individual solicit a job for himself. He's always selling the other fellow. As jobs are uncovered, club members are sent as candidates. No fee is charged, and there are no dues or salaries. Current expenses are met from voluntary contributions from the members.

"That, in brief, is an outline of the New York Club in particular and the Forty Plus movement in general."

Obviously a commendable purpose, observed the Editorial Committee as the gentleman left.

* * *

A COUPLE OF DAYS later BANKING had an opportunity to get a bank personnel man's reaction to the problem of people past 40 who want jobs.

"It's hardly necessary to remind you," he commented, "that banks present a very difficult obstacle to these men and women. Due to the steady

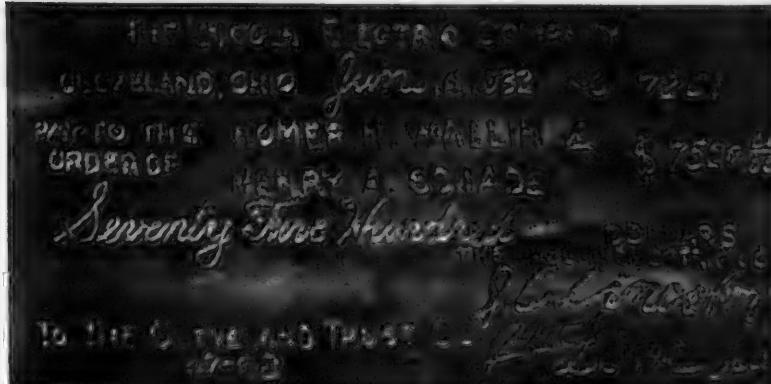
volume of business and the consequent low separation rate, employment with banks tends to be extremely stable. Consequently, if new workers are carefully employed and if those who prove unsatisfactory are separated at an early date, the remaining workers stay with the bank frequently for a lifetime. If, next, the bank follows the logical policy of promoting its own people—and it's under greater necessity to do this than are most businesses because of the low turnover—then there are few opportunities for people past 30, let alone past 40.

"For the reasons mentioned, we virtually never hire anyone for clerical or purely banking work who is even as old as 30. Most of our men come to us from high school or college. To employ older men is, we feel, the severest possible punishment for loyal employees who have had service of five to 15 years with us and are worthy of promotion.

"Occasionally a new type of work comes up that calls for experience not available heretofore, and then we necessarily employ mature and experienced persons. It seldom happens, however,

ALL STEEL AND TEN INCHES WIDE

One of three curious checks issued a few years ago in a contest sponsored by an electric manufacturing company. They were written with an electric arc on steel plates 24 inches by 10 inches, and each weighed 24 pounds. They were legal in every respect



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- 2.** Utmost speed and economy in the collection of Wisconsin items.
- 3.** First-hand knowledge of business facts (and business men) in every section of the rich Wisconsin market.



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that this takes us as high as 30 years of age, and I can't recall a case where it has carried us as high as 40."

"Our president has made the interesting statement that in his opinion the social aspect of employment implies more consideration for young people than for the older ones. The young, he thinks, need jobs because they haven't had opportunity to get any stability through job experience, without which many of them are likely never to settle down to normal ways of life."

Customer Relations

Reporting a new program of monthly customer relations meetings for the staff of the Union Bank of Michigan at Grand Rapids, E. J. Frey, vice-president, writes that the bank plans to have these gatherings addressed by persons whose business is primarily contacting the public. The purpose is to show "how much can be gained from proper handling of public contacts." The first meeting was addressed by Michael

Leonard, a director of the bank and a representative of the New York Life Insurance Company.

Savings Bank Life Insurance

To the Editor:

In the April issue of *BANKING*, page 9, in reply to a letter from J. Milton Garrison of Los Angeles, you listed some titles of books on savings bank life insurance.

I wonder if you are familiar with the booklet which has just appeared, *The Truth about Savings Bank Life Insurance*, by S. Nicol Schwartz. Perhaps this booklet was not available when the letter referred to was received by you.

In my opinion, Mr. Schwartz's booklet might very properly be included in any list of titles covering the subject.

F. PHELPS TODD

Vice-President

Provident Mutual Life Insurance Company of Philadelphia

The booklet is referred to in this month's new book department, page 54.

A Cartoonist Is Wrong

The visitor was Art Helfant, the cartoonist. He smiled the smile that artists and authors have when they bring in an IDEA. He didn't even sit down, although he was invited to do so. He said:

"What do you think of this?"

He delivered the outline of a cartoon captioned "Now Isn't That Just Like a Woman!"

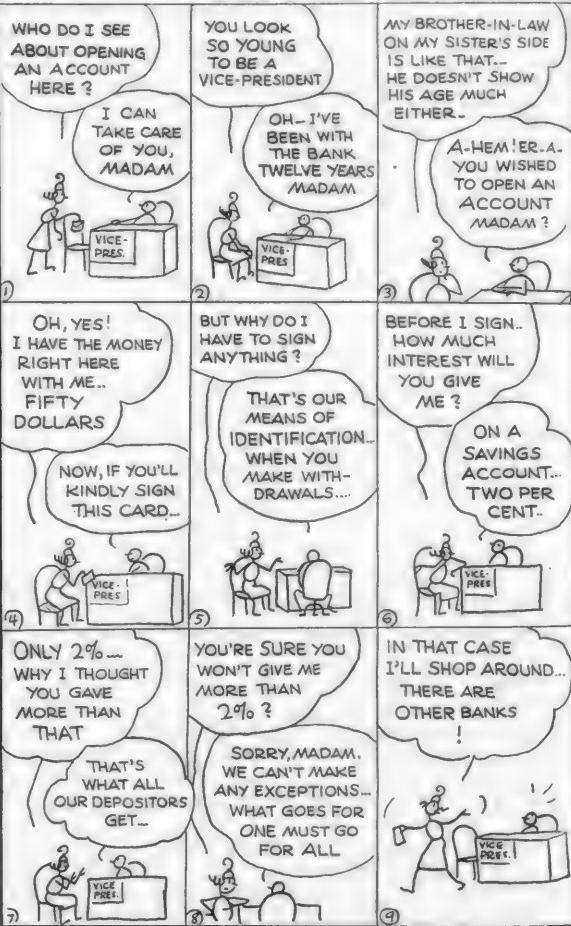
"But it isn't," said the Editorial Committee. "Art, if we ran that, every bank employee on the circulation list (advt.) would immediately write in to say that women *do* understand about interest rates, and stop payments, and overdrafts, and other technicalities, so why print anything as unjust as that Helfant cartoon?"

Art was so crest-fallen that he sat down. But he got up almost immediately.

"Oh, well," he said, and walked out, leaving his sketch behind him.

Here it is.

NOW ISN'T THAT JUST LIKE A WOMAN — BY ART HELFANT.



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Bank-Bookkeeping Machines • Accounting Machine Desks
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As a local credit specialist you have little difficulty in keeping continuously informed on the credit standing of local business men whose notes you hold. But when you buy bonds, you participate in a far-away loan that someone else has granted, without having first-hand opportunity to determine continuously the degree of risk involved. Small wonder, then, that the task of supervising your bank's bonds is infinitely more difficult than the supervision of your local loans.

To give your bond account the same continuous personal supervision that you give your local loans is the primary purpose of Moody's Bank Supervisory Service. When your bank subscribes, a group of mature

investment specialists will constantly be watching every development that affects the quality of any issue you hold. Keeping their eyes on the entire economic and investment world, these men will be alert for potential impairment of old investments, constantly searching for new investments of higher quality. And to make this service completely practical, a Personal Counselor will apply the findings of Moody's Staff to your specific requirements, helping you to achieve the maximum of safety, liquidity and income.

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AUGUST
1939

Interest Rates Point Down

INDICATIONS that interest rates paid by banks on time deposits still point downward are provided in data gathered by BANKING from clearinghouse associations representing all sections of the country.

Having noted reports of numerous rate reductions in recent weeks, as well as other evidence that the downward movement might be rather extensive, this magazine sent the following questions to 50 clearinghouses, located from Portland, Maine, to Portland, Oregon, and from Minneapolis to New Orleans:

1. *What is the approximate range of interest rates being paid on time deposits?*
2. *How does this compare with six months ago?*
3. *In your opinion is the movement in the direction of reducing rates of sufficient extent to be called a trend?*

Answering the last question, 30 of the 45 associations responding said "Yes", 10 said "No", and the other five were either non-committal or declined to venture an opinion. In 13 instances, interest rates on savings or other time deposits, or both, had been cut in the preceding half year. Although a large majority of the cities thus reported no change, several of the answers expressed reasons for believing that the trend was still downward.

As for the rates themselves, they vary extensively. In some cities there is no clearinghouse regulation covering the payment, in others competitive factors are apparently present; and there is often considerable difference in rates among local banks.

Generalizing, however, the rate paid on savings deposits seems to run from 1 to 2 per cent, while for other time funds the range is about $\frac{1}{2}$ to $1\frac{1}{2}$ per cent. It should be noted immediately, perhaps, that in two large reporting cities no interest is paid on time certificates of less than six months, that rates lower than $\frac{1}{2}$ of 1 per cent are not infrequent, and that rates paid in many cities depend on size and duration of deposits. In one city a mutual savings bank pays $3\frac{1}{2}$ per cent and another 3 per cent, but in no other place was more than $2\frac{1}{2}$ per cent reported and there were comparatively few in that category.

Many of the replies contained interesting comment. A clearinghouse official in a southern city said that "if the earning power of banks on their investments continues to be reduced, it probably will result in the future reduction of interest by banks." Another pointed to the low return on corporate and Government securities as offering no profitable field for the investment of savings funds on which 2 per cent is being paid.

One clearinghouse officer made this observation: "It is

A Postal Savings Cut

THE interest rate allowed on postal savings in New Jersey was cut to 1 per cent from 2 per cent July 1, following establishment by the state banking authorities of a 1 per cent rate for New Jersey banks and application of that level, by agreement, to Federal Reserve members.

perhaps more a question of some of the remaining cities falling into line with the major trend of several years, rather than a new revision of interest rates for the country as a whole."

"Our opinion is," said the manager of a large association, "that the banks in the larger cities are on rock bottom and therefore the trend, if any, is by the banks in the smaller cities toward the level already reached by the larger cities."

From a city on the Atlantic seaboard came this comment: "We have not noticed any unusual trend in this neighborhood by the commercial banks and trust companies to reduce rates, as for many months the rates have been at a minimum and time deposits of any character have been discouraged."

A western clearinghouse official voiced the opinion that "a continuation of the present low rate on investments and the fact that a number of banks have already started reducing rates will undoubtedly influence other banks in this section to follow their lead, although informal discussions to date have not brought this result."

"Some bankers feel that lower rates will be in order within another year," said a clearinghouse man in upstate New York, and a New Englander reported: "There has been some discussion of late looking towards reducing this rate (a maximum of $\frac{1}{2}$ of 1 per cent) or eliminating it altogether. I believe it is too high, and I think there has been and still is a noticeable movement looking towards reducing the interest on time deposits."

One banker was just back from the annual convention of the American Institute of Banking at Grand Rapids, where he said he had heard several bankers discuss the question of rates. "It seems to me," he added, "that the general opinion of most of them was that the banks, even though they have reduced rates, are still paying out too much of their earnings in interest."

From a few associations came reports that were not confined to interest rates in one community. A southwestern official had heard that several of the smaller banks in his state had reduced their rates on savings accounts. For a western state the average was reported at about 2 per cent, and there was no movement afoot for a reduction. All banks in one southern state were said to be paying 2 per cent, the maximum fixed by the authorities.

How to

MERCHANDISE Check Service

The author is a regular contributor to this magazine and compiles the monthly department, "Ask BANKING". He has recently made numerous talks before bankers' meetings in various parts of the country.

ANALYZING the selling approach of successful merchandisers reveals that they all have one policy in common. That policy is that they do not advertise themselves. They do not even advertise their products. They advertise *what the product will do* to benefit the purchaser.

For example, the manufacturer of a household refrigerator used expensive space in a national magazine to show the picture of a healthy baby. The text merely elaborated the statement that "food at right temperatures keeps babies healthy."

The advertiser did this because he knew that a large proportion of the purchasers of household refrigerators are vitally interested in healthy babies. Appealing to the interest of the buyer, rather than stressing the interest of the seller, is the secret of all successful merchandising.

It is the angle, however, that has been largely overlooked by bankers in the merchandising of banking services. This has been particularly true in the installation of the so-called service charge measuring methods on checking accounts. Here bankers have, to a great extent, stressed the bank's costs to depositors rather than the value of its services to them.

They have emphasized declining interest rates or the rules of a local clearinghouse and have presented depositors with a long list of the bank's costs, in many cases even going so far as to add a "desired profit" as a separate item at the end.

WHY SHOULD DEPOSITORS CARE?

DEPOSITORS are not interested in what it costs the bank to do business. They are interested in the services they receive.

Automobiles did not grow from "millionaires' playthings" to everyday necessities for the millions because salesmen explained how much it cost to bolt the engine to the frame, but because they talked of speed and comfort, because they pictured the beauties of the country and the ability of the automobile owner to go where he wanted to when he wanted to. This same policy is still being followed in national automobile advertising.

Industry found out many years ago that all costs and profits must be included in the selling price. This means that there are many costs which do not directly go into producing a product but which, nevertheless, are included in the selling price of that product.

This is not "loading" the product with costs that do not properly apply. Such costs do apply. Anyone familiar with industrial cost-finding knows that there are four general classifications of costs—direct, indirect, selling and administrative. These are all included in the price of the finished product but they are not shown separately on the price tags. Customers are sold the article, not the manufacturing costs.

The same thing holds true regarding banking services. There are many costs which apply to the banking services sold to checking account customers but which are indirect and administrative. Therefore the cost of these should be apportioned to the services which the checking account depositor is buying and which he recognizes as being of value to him. Without question these are principally the checks drawn and the items collected.

In both these cases banks are performing services which cannot be as well procured from any other source, and which they can render profitably at a price considerably less than any other type of present day organization can render them.

Consider first the checks drawn. To transmit money from one place to another a person has the option of buying a postal order or some other such exchange, or of sending the actual currency by registered letter, or of using a check drawn on his own bank. Of these three there is not any question but that the best and cheapest service is procurable from a bank check.

In either of the other two ways of paying, the costs to an individual are considerably in excess of anything that any bank in the United States has yet charged for checks. The inconvenience of those methods is also considerable when compared with checks. Therefore, in the checks drawn banks have an item which they can merchandise at a profit over any competition.

The same thing is true regarding the collection of checks drawn on other banks. If a depositor attempts to collect such items by sending them direct it will cost at least three cents for the postage alone, to say nothing of the return postage and registering fees if currency is needed, as it generally would be. The usual price charged by banks for collecting out-of-town items is just the price of the postage stamp, and they are organized to make a profit on that in most cases. Consequently, in the collection of such items at the prices usually charged, the depositor is getting a bargain and the bank is making a profit.

SATISFACTORY GOODS, NO COMPETITION

THESE two services, then, are the goods to be sold. They are the ones that give the depositor real satisfaction and those in which the banks have no real competitor.

But instead of limiting themselves to these and basing all checking account costs on these services, thereby following the proved principles of merchandising, bankers have, in many cases, become lost in a maze of costs. They have charged for a long string of items in which the depositors are only remotely, if at all, interested.

The first of these items, and one which has caused a great deal of controversy, is that of charging for the deposit ticket. It has been looked upon by many laymen as a charge for "bringing money to the bank".

As a matter of fact it is of absolutely no value to the depositors in 99 per cent of the cases. Therefore it is an indirect cost against the services of acting as paying and collecting

By
E. S. WOOLLEY

agent and should be applied specifically to those services.

There are depositors, it is granted, who abuse the deposit facilities by bringing in many deposits a day. In those cases, however, the bank is, in reality, performing a special service by acting as a sort of assistant bookkeeper. For this service there should be a charge, but it is a special service rendered to specific individuals and not to depositors as a class.

The charges of electric light companies may be taken as analogous. They sell electricity at so much per kilowatt hour. Included in this selling price is the cost to them of accepting payment of their bills, collecting delinquent accounts and all the other indirect selling and administrative costs.

But what a hubbub would be raised if those costs plus a "desired profit" were listed separately on the statements sent to consumers. Supporters of the Government ownership of public utilities would have a field day.

TWO DISTINCT SERVICES

MANY of the incongruities in the selling methods of banks seem to have arisen because of the apparent inability of bankers to recognize that their institutions stand in a dual relationship to everyone in the checking departments. These departments act as both paying agent and collecting agent. But the services are distinct and the charges should therefore be kept distinct.

It is for this reason that charges for "on us" items deposited cannot properly be made. When a bank charges the drawer of a check on itself, it is charging the depositor for the service of acting as his paying agent. Therefore the payor has the right to demand that his paying agent honor his instrument at 100 cents on the dollar.

When banks make a charge for either cashing or accepting for deposit checks drawn on themselves they are ignoring this basic principle.

This is the fundamental error of the exchange still being charged on their own checks by some banks in 16 states of the Union. To make such charges merely because they can "get away with it", or because they make the excuse that they could not live if it were not for such charges, is no reason at all.

If banks claim that they cannot charge the drawers of checks in their community, that is, the people to whom they are rendering the service, but must charge the people to whom those checks are sent, it would seem to be nothing but an acknowledgment that they cannot be self-supporting.

When banks charge for items deposited which are drawn on another bank an entirely different condition exists. Here they are acting as collecting agent for the depositor and do not represent the drawer in any way. Therefore they have the right to charge the depositor for their collection service.

This duality of relationship of checking department customers must be recognized by bankers before fair prices for banking services can be established.

Another case in which the merchandising angle of commercial department services appears to have been subordi-

nated to costs is in the charge made for "custody of funds" or "size cost". This is a charge applied to the deposit account based on the amount of money on deposit.

It must be remembered that for about \$5 a year depositors can rent safe deposit boxes for the care of their funds and maintain their checking account balance at a minimum. They can draw currency out of those boxes to take care of any checks they intend to issue each day. As they would be depositing currency there would be no float. To make a high charge for this "size cost" is, therefore, to ignore again the basic principle of merchandising.

An excuse is given that there are certain costs in a bank which directly apply to the size of the account, such as the guards, etc. This overlooks the fact that the guards in a bank can protect only a very small portion of the deposits. The guards certainly have nothing to do with the cash reserves carried in other banks. Many bonds are placed in safekeeping elsewhere. And robbers do not want the notes.

Guards can only protect the amounts which are in the tellers' cages, and perhaps the vaults. These are but a small fraction of the deposits.

DEPOSIT TAXES, FOR INSTANCE

AGAIN there is the matter of deposit taxes, such as the 1/12 of 1 per cent of the Federal Deposit Insurance Corporation. Even here it would seem to be better merchandising to consider these an indirect expense and allocate them to the services the bank is selling.

This is because the 1/12 of 1 per cent applies to the total amount of the deposit, whereas the insurance is only for \$5,000. Therefore, in many instances the large depositor pays for insurance that he does not receive. The absorption of those costs into the services being sold will really prove more equitable and also enable the placing of all costs on the two prime services of acting as paying and collecting agent.

So long as bankers persist in ignoring the proved principles of merchandising by emphasizing bank costs to customers, rather than the services and selling prices, the so-called service charge measuring methods are going to remain in a chaotic condition.

It is because of this very fundamental error that agitation has been engendered in different states to prohibit any kind of service charge by banks.

A 250-YEAR-OLD TRUTH

TOMMASO CONTARINI, speaking before the Italian Senate in 1584, said: "Buyer and seller are satisfied in a moment while pen moves over page, whereas a day would not be enough to complete the contract for a great mass of merchandise by counting a great number of coins".

That was probably true then. It is certainly true today. Merchandise moves from coast to coast, from country to country, only because of the complicated system which banks have perfected for the facilitating of settlements between buyers and sellers.

These are the services of checking departments, which the public recognizes as being valuable. Therefore they are the services to which all costs should be applied. All indirect costs and profits should be included in the selling prices of those services and not shown as separate items.

When bankers realize that they must follow the regular merchandising principles of placing the costs on the services to be sold and pricing those services accordingly, they will go a long way toward obtaining that uniformity of method in account analysis that is so desirable.

International Pump Priming

Mr. ANDERSON contributes the monthly column, "Washington", which regularly appears on page 3 of BANKING.

REDUCED to a common sense basis, the proposal to lend something like half a billion dollars to Latin American countries resolves into a question of whether such a policy is really constructive or whether it constitutes the old mistake of sending good money after bad.

There is no question that Latin American countries as a group need and can profitably use new capital. There is no question that the United States has an abundance of funds for the purpose. But Latin American countries are already in default to the extent of approximately \$866,200,000 on the \$991,000,000 of their 1925-1930 borrowings still held here. Although some of them could have done much better at meeting their obligations than they have done, most of them are unable to service their debts. If they can be financially rehabilitated by new loans there is a fair prospect that most of the obligations can eventually be met. If they are allowed to drift along indefinitely in their present financial condition most of them are practically certain to go from bad to worse in their finances and ultimate collection of the amounts due American bondholders becomes more and more doubtful.

Another factor in the problem is that of the revival of American foreign trade. At present few of these countries can approach their normal volume of imports from the United States for the simple reason that they cannot pay for the goods they want and would normally take. If their economic position can be measurably improved by judicious loans from the United States, their industries and general production stimulated and their currencies placed upon a more stable foundation, there is at least a fair prospect that normal trade can be developed to the manifest advantage of American industries as well as to the importing countries.

DISCRIMINATION NEEDED

OBVIOUSLY, a solution of this problem involves careful discrimination. Where a country has borrowed money on its general credit and has been unable even to keep up its interest payments, further advances on general credit seem a questionable proposition. On the other hand, if new advances can be made upon specific and adequate security which will aid in the rehabilitation of these countries and restore their production and trade, there is no sound reason why such loans should not be made.

Especially is this the case where loans can be made for "self-liquidating" enterprises. New loans under such conditions may not only bring about an immediate increase in our foreign trade but may so improve the economic position of the countries concerned that their general credit will again justify future confidence in their finances and enable them to pay their debts. Of the two benefits, immediate improvement in trade is perhaps the more important at present. It is quite possible that the judicious expenditure of several hundred millions of dollars will bring returns in the billions—at least the prospect is not to be dismissed lightly.

American investors have suffered tremendous losses in their foreign lending and Latin America, next to Germany, has been chiefly responsible. According to Department of Commerce records, out of a total of more than \$11,000,000,000 of foreign dollar bonds issued in this country in the past 25 years, bonds with a face value of only \$3,598,000,000 remained in American hands at the end of 1938. The reduction was due to repayments, repatriation, and readjustments of various sorts in which several foreign governments took advantage of American investors by buying in their own bonds at low prices after having brought about the low prices by defaults.

The market value of the \$3,598,000,000 bonds was \$2,465,000,000, or an average of \$685 per \$1,000 bond. Practically one-third of all issues—32.6 per cent—was in default. Excluding Canada where defaults are extremely small for the amounts involved, the ratio of defaults was 52 per cent. Germany accounted for 26.4 per cent of the defaults, Brazil for 24.3 per cent, and Chile, Peru, Bolivia and Colombia for 31 per cent. Six countries account for 82 per cent of all defaults.

Readjustments of interest or of principal have been effected in a quarter of a billion dollars of the outstanding issues, some of which are themselves the result of readjustments. Readjustments have involved an average reduction of interest by 30 per cent. For the American investor it has been costly business.

The specific situation in the several Latin-American countries as of the end of 1938 was as follows:

Brazil. Estimated American holdings of Brazilian dollar bonds included \$137,400,000 of national obligations; \$145,400,000 of state and municipal obligations; \$13,300,000 of government-guaranteed issues; and \$2,200,000 of private corporate issues. Of the total of \$298,300,000, approximately \$285,000,000 was in default, the small remainder consisting of certain Bank of Brazil notes.

Chile. Estimated American holdings: \$117,500,000 of national bonds; \$11,700,000 of state and municipal issues; and \$69,000,000 of government-guaranteed issues. Of the total of \$198,200,000, \$148,000,000 was in default.

Argentina. Estimated American holdings include \$130,100,000 of national issues and \$63,600,000 of state and provincial issues. Of the total \$193,700,000 only \$13,500,000 was in default, this being a remnant of bonds not yet converted in a readjustment arrangement.

Colombia. Total holdings amount to \$128,300,000, including \$41,000,000 of national obligations; \$78,200,000 of states and municipalities; \$4,100,000 of government-guaranteed issues; and \$5,000,000 of private corporate issues. Defaults existed in \$115,000,000 of the obligations, the rest consisting of so-called short-term loans carried forward from time to time.

Peru. Total holdings, \$54,400,000 consisting of \$51,100,000 of national and \$3,300,000 of state and municipal issues. \$54,000,000 were counted in default.

Bolivia. Total holdings, \$53,600,000 of national bonds completely in default.

Uruguay. Total holdings \$36,200,000 including \$34,000,000 of national bonds and \$2,200,000 of state and municipal issues. Defaults were rated at \$5,000,000,—remnant of a readjustment arrangement.

Costa Rica. Total holdings \$8,000,000 of national bonds in complete default.

By GEORGE E. ANDERSON

Guatemala. Total holdings, \$3,500,000 of national obligations and \$1,200,000 of government-guaranteed issues. Defaults were placed at \$3,500,000.

Panama. Total holdings, \$11,500,000, including \$10,700,000 of national bonds, \$200,000 of municipal issues and \$600,000 of private corporate issues. Total defaults were \$10,000,000.

Salvador. Total holdings, \$4,100,000 of national bonds in complete default.

This is a discouraging record. Nevertheless, an examination of the situation in detail shows that it is not without hope in precisely the line of credit extension which the record seems to discourage. Brazil leads the list of nations in default, but the United States has found a way to extend credit to Brazil along the line of the proposed general policy and in a manner which promises not only immediate increase in our foreign trade but also an ultimate settlement which American bondholders will be willing to accept. The Export-Import Bank of Washington has advanced \$19,200,000 to liquidate the blocked commercial balances of American exporters to Brazil and a further \$50,000,000 in gold credits has been arranged to be used as required to support Brazilian currency. The former advance is secured by commercial bills. The latter, when used, will be secured by an agreement to turn over to the United States each year the product of Brazilian gold mines.

THE BANK'S COMMITMENTS

THE Export-Import Bank has made total commitments not later withdrawn or cancelled of approximately \$125,000,000, the greater part of it to Latin America. It has loans and commitments now outstanding amounting to around \$40,000,000. It has regularly financed exports of agricultural products, mostly cotton, as well as manufactured goods. Commercial banks have participated in practically all such transactions.

The bank has made or has under consideration such advances in Colombia, Chile, Haiti, Nicaragua, Peru and Uruguay. Most of its transactions are small, though considerable in the aggregate. They are in every case adequately secured by specific collateral. The proposed lending to Latin America is merely an extension of this business. It will require many months to put out the \$200,000,000 contemplated for next year.

Contrary to a widespread impression due to an inept announcement, the proposal to advance up to half a billion dollars to this nation's neighbors to the South does not contemplate loans from the Treasury to the treasuries in Rio de Janeiro, Buenos Aires, Santiago, Lima, or any other Latin American capital.

That is definitely out of the picture. The proposal merely means credits which are to be advanced so far as practicable by American banks or other lenders, including possibly a new Government agency, to Latin American borrowers for specific purposes, on specific security, under more or less direct government guaranty either on the part of the United States or that of the borrowing nation or both. The machinery to be employed may be the Export-Import Bank, the RFC, or a

Where the Pump Sticks

Commenting on "international pump-priming", the New York *Journal of Commerce* said recently that "if Export-Import Bank loans were coupled with policies that encourage the making of new private investments abroad, they would contribute to a substantial expansion of our foreign trade."

"Instead, however," continued the newspaper, "private capital is discouraged from seeking outlets abroad because, at best, the Administration is lethargic as regards the protection of private foreign investments. At worst, it openly invites foreign countries to default in obligations due in this country because of alleged irregularities in connection with a few of these loans, and all but condones outright confiscation of American property abroad.

"Efforts to prime the pump of American foreign trade through Export-Import Bank loans are thus doomed to failure. Whatever benefits are derived from such loans are more than offset by a failure to create conditions that promote new private investment abroad. As long as this continues, Congress is justified in keeping the activities of the Export-Import Bank within modest limits."

new organization to be formed for the purpose. Whatever may be the plan, the money used will come directly or indirectly from the commercial banks.

Assuming that the specific security for advances made by this country to its Latin American neighbors is sound and adequate, there remains the question of general credit reliability of the countries themselves. One would be naive not to realize that the expropriation of land, oil concessions and other property of Americans and other foreigners in Mexico has cast a shadow over the credit standing of the whole of Latin America.

NONCHALANT DEBTORS

NOR has the treatment of American and other foreign interests in Bolivia, Chile and various other countries in smaller degree added any confidence in the good faith of the governments concerned. The nonchalance with which some of these countries have treated their current defaults on their public debt has not given any great assurance of their good faith in new undertakings and there still is considerable justification for the unwillingness of many American bankers and investors to risk their funds in countries where expropriation of property, debt default and more or less poorly concealed repudiation are possibilities.

It is not fair or sensible that all countries in Latin America be classed as wrongfully inclined merely because some governments in that part of the world have fallen from the path of international rectitude. If any loan program such as that now proposed is to be made a success it can be only as a result of careful discrimination and investigation in which the realities of the present rather than the events of financial history must be the controlling factors.

Federal Farm Credit Competition

By J. KNIGHT ALLEN

The Federal farm credit system, says the author, has more short term loans outstanding in California than in any other state, in spite of the development of the banking structure there. MR. ALLEN is Director of Research of the California Bankers Association.

WITH the transfer of the Farm Credit Administration and the Federal Farm Mortgage Corporation to the Department of Agriculture, under the reorganization of Federal administrative agencies, the outlook is for more rather than less competition from these agencies so far as the average country bank is concerned. Indeed the move may be the most important event in the history of the farm credit agencies since the emergency financing program of 1933-35.

The details of the new plan of organization are not yet known; nor is there extant any knowledge of what lending policies are to be. Yet, considering the past record of the farm bloc, it seems reasonable to suppose that farm credit will henceforth be meshed with the exigencies of farm politics.

In California, where the Federal farm credit system has about \$145,000,000 in long term loans and more short term loans outstanding than in any other state, there is an opportunity to determine why the Federal system has grown so rapidly. Its accomplishments are all the more remarkable because of the unusual degree to which banking has developed in California in comparison with its development in other states. With a good distribution of large and small unit banks, and with branch systems with large accumulations of genuine savings deposits covering the entire state, it would seem that the banking system of no other state should be able to serve agriculture so well. These circumstances indicate that no fundamental need for most of the Federal farm loan agencies exists; and yet they have grown remarkably in California, with the result that the Farm Credit Administration has approximately as much loaned to farmers as have the combined banks of the state.

TWO ASSUMPTIONS

THIS position of the Federal lending agencies has been very largely achieved since 1932. It is understood, of course, that a sizable portion of these credits should be classed as emergency in nature. But this should not obscure the fact that a still larger portion represents legitimate banking transactions which the banks of the state could have undertaken. It thus becomes obvious that the success of the Farm Credit Administration is either a reflection of the shortcomings of bank management or else of an unfair competitive position, with which Government activities of this kind are all too frequently and destructively endowed. A study of the California picture indicates that in a measure both of these possible assumptions are correct.

A pointed instance of bank management deficiency is suggested by the volume of business transacted by the most actively competing Federal farm loan agency in California—the production credit system, which began operations in the

Summer of 1933. This system makes direct short term loans to farmers for crop production and livestock raising. Although its livestock loans, which constitute about half its volume, fill a need not otherwise adequately provided for by all banks, its crop loans are a duplication of private banking facilities and should not be necessary in California. Nevertheless, since this is the state in which the greatest amount of loans is made by this Federal agency, it may be concluded that the California banks are being deprived of business which they might otherwise have. This is a case of needless duplication and at the same time an evidence that some banks have failed to take advantage of their opportunities.

UNFAIR COMPETITION

THE unfairness of the competition of the production credit system, as well as of the other Federal agencies, lies in the fact that they are heavily subsidized, indirectly, through the free use of governmental capital, by special interest rate reductions, and through tax exemptions. Notwithstanding these advantages, the system has barely managed to avoid showing a deficit. In spite of this poor showing, the interest rate on production loans was recently reduced from 5 per cent to 4½ per cent.

There is no doubt that in certain areas the Farm Credit Administration has given much to the welfare of the farmer which cannot possibly be duplicated by institutions that are controlled by stockholders and managers not solely interested in agriculture. The Federal farm loan system facilities are extensive; however, their usefulness is hampered by cumbersome technicalities of operation and by absentee management. Banks in country areas are better able to respond understandingly and helpfully to borrowers.

Sad as is the outlook for the taxpayer indirectly and the country banker directly, the outlook for the patriot is even more disheartening. Our American farmers have always been an upstanding independent folk, but they will not long continue to be under the guidance of the farm bloc uplifters. All we have to do is to look at the German experience to see what this means.

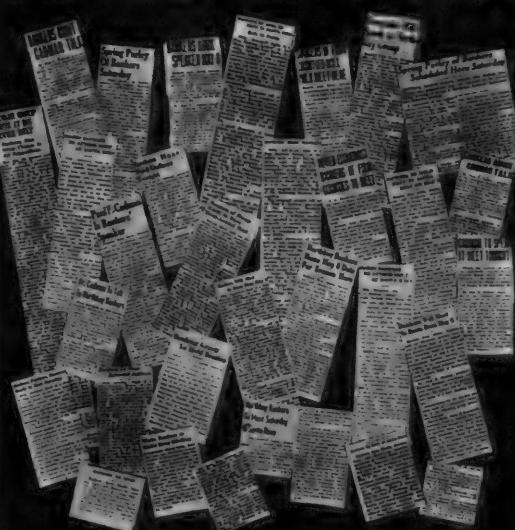
In my judgment the country banks should capitalize even more fully their natural advantages, such as nearness to farmers, freedom from red tape, the ability to make decisions quickly on loan applications, adaptability to the individual farmer's needs, and interest in the development of the local community. The value of all banking services, such as handling checking accounts, making collections, safeguarding valuables, accepting savings accounts, handling estates and trusts, giving financial and business information and appropriately advising farmers about their problems when advice is sought, should be publicized continually.

Finally, it might do no harm to point out that "cooperation" with a program to plow under wheat or kill pigs is not an essential of getting a bank loan, as it may be not many years from now, if the farmer wants one from the Farm Credit Administration.



In California, as in many other states, bankers' groups are inviting public participation in some of their meetings. This program might help solve the problem of Government competition discussed on the opposite page. The picture above shows a meeting of Group Three, California Bankers Association, held in San Jose. Besides the bankers who attended, there were more than 100 farmers, business and professional men and civic leaders from five counties. On the platform, left to right, are Col. Robert A. Roos, San Francisco, J. E. Drew, California Bankers Association, Paul Eliel, Stanford University, E. V. Krick, president of the state association, and D. L. McKay, chairman of Group Three. Below are two panels of clippings on California bankers' activities, the one on the right dealing specifically with aid to agriculture.

Building a Group Meeting



PRESS CHEERS BANKERS FOR FARM AID...



What a Reputation Is Made Of

By HARRY W. HEPNER

The author is Associate Professor of Psychology in Syracuse University's College of Business Administration, Syracuse, N. Y. He was a member of the faculty at the 1938 session of the Graduate School of Banking, conducted by the American Bankers Association at Rutgers University, New Brunswick, N. J.

THE banker who operates in a community having several banks almost never really knows how his bank rates in comparison with others. He may know the number of his depositors, the amount of his advertising budget, and the year his bank was founded, but he seldom knows how well his bank rates, comparatively speaking, until he makes a systematic survey. He may be surprised when he learns the results of the following question applied to representative members of the community: "Name the banks of your community in the order in which they occur to you."

Surveys of the public reveal that most people cannot think about the abstract phases of banking. Money and banking have many problems too deep even for the comprehension of college students. But people are able to say which they prefer when they are offered a choice of several banking services that affect them directly. For example, if you want to revise or inaugurate service charges for the checking privilege, the possible alternative methods of computing the charges will elicit definite reactions when put into concrete, easy-to-understand form. *Definite alternatives must be presented visually and clearly.*

GIVE A THOUGHT TO INTERIORS

INTERVIEWS about banks and banking are likely to result in many comments about the cold appearance of bank interiors. Any banker who reads several such expressions by members of his community is apt to consider the use of warm hangings, flowers and rugs for his bank. Also, he will decide whether he wants to dot the banking floor with fewer guards and office boys and replace them with attractive receptionists who enjoy smiling. The employees of a bank are its living advertising.

Financial advertising men can usually get budgetary allowances for advertising for new customers but they can obtain little money for holding the old customers. The old customer, too, deserves consideration. Why spend \$5 to get a new customer when five cents or some friendly attention would hold a good, old customer? Customers who have been loyal to a bank for several years deserve special recognition. Many would appreciate just a cordial word of appreciation from an officer who might, at the same time, show the customer through some part of the bank or give him some other personal attention.

Every bank can have at least one employee who likes to speak in public and does it well, one who can explain interesting aspects of banking. He should not defend the present banking system, capitalism or big business, but rather

give talks on the human interest aspects of money and banking.

Every bank can assign to some one officer or employee the responsibility of keeping all others informed regarding the A.I.B. and publications on public relations such as *Constructive Customer Relations, Manual of Procedure in Constructive Customer Relations, Morehouse Lecture Notes*, reports on surveys of public opinion, F.A.A. Bulletin articles on customer relations, etc.

Of course, effective customer relations require far more than the assignment of an individual or a committee to that problem. It is a continuous activity. Unless the officers can instil employees with a zest for studying and pleasing customers, the paper programs have little value.

Almost all bank employees are not only willing but glad to learn how to improve their banking abilities and skills. For example, moving pictures and voice recordings made of employees of one bank raised such points as:

1. *In routine transactions with customers, the last ten seconds with a customer count most. What should the employee say to a customer as he leaves so that the customer may have a good impression of the bank?*
2. *Look the customer in the eye and say his name at some time during the transaction.*
3. *When a customer draws a check to "Cash" and asks whether the check should be endorsed by him, the teller should be able to explain clearly why it is to the customer's advantage to endorse it.*
4. *How should a teller look at and handle a customer's deposit book in order to make a favorable impression?*
5. *How should the teller ask for means of identification?*
6. *How can the bank worker explain routine bank requirements without resort to trite statements such as, "The law demands it", "It's a rule of the clearinghouse", or "The bank's rules require it"?*
7. *How can everyday terms of banking be explained so that the customer understands them—terms such as, "co-maker", "uncollected funds", "difference between a New York draft and a certified check", etc.?*
8. *How can the bank worker best explain why the bank pays only 2 per cent interest on interest accounts and charges 6 per cent for money borrowed from the bank?*

The systematic study of the public and the training of employees in customer relations tend to make banking more respected by the customers and more interesting to the employees. Sound public relations efforts should result in better banking. That's the test of the program.

Discovering Overlooked Profits

By R. B. OLDER

MR. OLDER is in the research department of the Lawrence Warehouse Company.

THROUGH its treatment of chromium ore during the past 30 years, one of the three principal manufacturers of bichromate of potash in the United States has accumulated a tremendous "mountain" of waste material, which up to the present has been of no value.

However, this company's research laboratory has recently evolved a process by which they can still take chromium, aluminum and another substance from this discarded material in such large amounts as to justify retreating the entire 30 years' accumulation. The profits anticipated through this operation are sufficient to justify the purchase and installation of some \$150,000 worth of new machinery, and the plant is at present being rearranged preparatory to installing the equipment.

In addition to the consistent attempt to secure new borrowers, why shouldn't banking follow much the same lines and recover overlooked profits from old customers?

THERE ARE NEW FIELDS TO CONQUER

WHY not set up "laboratories" in banks to study and investigate ways of safely lending money to concerns and businesses which are now turned down simply because the banker has never lent money on that type of operation and knows nothing about it, or because of some previous misadventure?

Instead of automatically admitting that a particular industry or business is fraught with danger, and refusing thereby a potential loan, why not take that particular industry or business apart, see exactly what the hazards are and then set up a perfect frame or pattern, which, if complied with, would justify advancing money? It would then be up to the particular industry or concern to fit the pattern.

There are numerous instances where some such procedure is being used. Through such a procedure as followed by our company in creating commodity paper against inventories of raw or finished materials, many bankers are now taking advantage of collateral which they had been passing up year after year without realizing its tremendous loan value.

ONE OPPORTUNITY

COMMODITY credits, secured by such paper, offer the banker an excellent opportunity of creating safe, sound and profitable business, as this type of commercial loan business makes it possible to extend credits which heretofore may have been restricted by insufficient collateral, and enables banks to tap a billion-dollar loan market. There are thousands of manufacturers, producers and wholesalers all over the country who have from one-half to three quarters of their working capital and current assets tied up in inventories. When you consider the extent to which these inventories are now financed at high cost by suppliers, the opportunities to commercial banking become self-evident.

Through the extension of commodity credits, many bankers are finding a constantly increasing outlet for their surplus funds. This is just as true of the small bank, which in many cases is enabled to extend its legal limits, as it is with the larger banks.

By using his inventory to collateralize bank loans the customer in many cases extends his seasonal or year around operations, takes large trade discounts, makes advantageous quantity purchases, and generally engages in numerous other profitable operations.

A WEST COAST EXAMPLE

IN a recent article in BANKING on the subject of commodity financing on the security of warehouse receipts, Russell G. Smith, vice-president and cashier of the Bank of America, N. T. & S. A., San Francisco, pointed to the canning industry as an outstanding example of profitable and safe lending. However, lending to this industry was once considered unsatisfactory by every bank in California. (See BANKING for February 1939.)

The same thing held true of the lumber industry. Banks lent on sawmills and standing timber; now they lend upon logs, finished lumber and receivables.

The wine industry is another such example. When prohibition was repealed it caught this industry almost unprepared. Scores of wineries had gone to rack and ruin and had to be reconditioned in a hurry. Securities had no market and there was no time for slow development of capital investment. Practically every cent most of the vintners could scrape together had to go into fixed assets, and in the majority of cases there was little money left for working capital purposes. These wineries had soon manufactured all the wine their finances would allow, and banks naturally could not make sufficient advances on fixed assets to care for the industry's needs.

At the time only wineries were permitted to operate bonded storerooms, making it impossible to obtain independently issued warehouse receipts. Obviously, therefore, no valid pledge could be established.

The Treasury regulations were changed so as to permit independently issued warehouse receipts covering ageing wines to be used for collateral purposes, and banks immediately extended credit to responsible wineries against the finished wines. Financing of the industry on this basis is now handled in tremendous volume.

UNTOUCHED PROFITS EXIST

UNQUESTIONABLY, there are ways to lend to any industry which will sink the bank that lends, and there are ways to lend to any industry which will give the bank continuous profit. Unquestionably also, there are many concerns and businesses which banks are now turning down that are a tremendous source of potential loan business, and which could, with properly directed effort, be converted into profitable business for banks.

16 Flaws in Wills

Mr. LEWIS is Executive Vice-president of the Metropolitan Trust Company, Chicago.

TWO hundred of the country's most experienced trust officers recently joined in a national survey to determine the major defects found in the wills of people in this country. They rated—in the order of importance—the most common weaknesses observed in wills that had come to them for administration during their years of service in the trust business.

In view of the fact that every state was represented by those responding to the canvass of expert opinion, their findings may be regarded as national in scope.

Here, briefly, are the major defects in wills:

1. Due to failure to make periodic revision, will is not up to date and does not provide for changed conditions.

The obsolete will is the outstanding defect of the testamentary plans that Americans of wealth leave behind them. Hopelessly outmoded, its provisions no longer fit the needs of the family or represent what the man or woman of wealth wished to do at the time of demise.

2. Inadequate definition of powers as to the making of trust investments.

If the will is silent as to trust investments, the trustee must confine investments to those which qualify as legal for trust funds. Lacking the requisite powers, the trustee is unable to exercise the necessary discretion and in many cases the income is less than could be obtained if the trustee were free to invest a part in common and preferred stocks.

3. Failure of the will to provide for retention by the trustee of stocks and bonds, stocks in closed corporations and other properties which do not qualify for trust investments.

Unless the will specifically empowers the executor and trustee to retain investments which are not legal for trust funds in most states, these must be disposed of. For this reason, securities in closed corporations frequently have been sacrificed at prices far below the intrinsic value because the trustee had no choice but to sell these securities at the best available figure. Marketability is one of the greatest factors in determining security values. If the trustee can sell stock in a closed corporation to only a very limited few, it is quite apparent that the prospective buyers are in a position to drive a hard bargain.

4. Failure to provide power to the trustee to encroach upon the principal to meet emergencies and educational requirements of beneficiaries.

Frequently, men of wealth leave their estates in trust with the stipulation that the income from the principal be paid for the benefit of wife and children as life tenants. Due to unforeseen and precipitous shrinkage in the value of securities and property, the mere income proves to be inadequate to meet the needs caused by prolonged illnesses, extraordinary expenses and unusual educational requirements.

5. Money bequests and gifts made in sums rather than in portions or fractions of estates.

How swiftly the tides of fortune change has never been more

dramatically shown than where men of wealth have exhausted their whole estates by specific bequests and by such a miscalculation have left virtually nothing to the members of their families. If bequests are made in portions or fractions, the members of the family cannot fail to share fairly in what is left behind.

6. Tying up property in trust for too long a period before directing distribution, with restrictions that fail to take into account changing family needs and possible changes in economic conditions.

There are fashions in testamentary plans as well as in dress and in customs. During the decade from 1910 to 1920, it seemed that a great many Americans were fascinated by the realization that they could leave money in trust for long periods and could make provision for future generations so that the name and financial prestige of their family might live long in the annals of their country. It is strange, but nevertheless true, that many men and women have made provisions in wills which take care of unborn generations at the expense of those who are now living and who are closest and dearest to the makers of trusts. More and more, people are finding it wise to make outright distributions of property to the male members of their family, although there is still a very pronounced tendency on the part of Americans to set up trusts for the benefit of wives and daughters.

7. Inadequate provision made to provide means for meeting the immediate expenses of the estate and the maintenance of the family during the period immediately following the death of the testator.

One rather common oversight made when the will is drawn is the fact that some provision should be made for meeting the expenses of the estate and the maintenance of the family immediately following the period of the death of the testator. As a rule, it requires one year or more in most states to settle an estate. Far too few men appreciate the fact that upon their death, their salary, which generally constitutes the principal part of the income, ceases and yet the needs of the family continue.

8. Failure to grant power and authority to trustee to do everything necessary and proper to provide for advantageous administration of the estate.

While the modern tendency is very definitely to give the trustee broad powers to deal with virtually any contingency that may arise—and thoughtful lawyers frequently incorporate the broadest powers in the will—there are still a great many who do not realize that silence as to specific powers ties the hands of the trustee in handling trust funds.

9. No provision made in the will to permit the sale of real estate, without resorting to court action.

If the will is drawn so that real estate may be sold without requiring the approval of the court, needless expense can be saved and quicker action can be had to dispose of property at the opportune moment.

10. Failure to give to the trustee general authority to determine what receipts are to be treated as principal and what as income and what expenses shall be charged against principal and what against income.

By REUBEN A. LEWIS, JR.

With the growing complexity of the corporate structure and various moves that have been made by corporations to avoid tax extravagance, numerous disputes have arisen between those entitled to the life income from property and those who inherit the property after the death of the life tenants. A great deal of trouble could be avoided if the trustee were empowered to decide these perplexing questions.

11. *Failure of testator to empower the trustee to borrow money on the credit of the trust estate to pay debts, taxes and other charges which might lead to a sacrifice sale of trust assets.*

In many instances, banks have regretfully declined to lend money because the will did not carry the necessary authority. The ability of the trustee to borrow money has effected considerable savings to numerous estates and has prevented the ruthless sacrifice of properties to raise money.

12. *No provision made in will for the remaindermen to share the expense of the trust with the life tenant.*

One of the modern tendencies in wills is to recognize the justice of requiring the remaindermen to pay a part of the expense of preserving the estate so that the burden does not fall wholly upon the one entitled to the life income.

13. *No provision made in will to permit trustee to make payments of income for benefit of minors so appointment of guardian may be avoided.*

By the inclusion of a properly drawn clause, it is possible to have income designed for the use of minors paid by the trustee for their benefit so that the court costs of having a guardian appointed may be avoided.

14. *Inadequate provision made in the will permitting the executor and trustee to carry on a business enterprise.*

If the will is silent as to the continuance of a business enterprise, the executor and trustee have no choice but to wind up the business or continue it at their own hazard. Frequently, if a business could be carried on for a period of time, it might be sold to better advantage than by placing it upon the auction block at an unfavorable time.

15. *Failure of will to provide that distribution may be made in cash or in kind or an undivided interest, with trustee given authority to fix values binding all parties at interest.*

At times, securities and real estate have limited markets. Rather than force the sale of either under unfavorable conditions, the inclusion of a power giving the trustee authority to distribute in cash or kind is found to be most helpful.

16. *Failure of will to include definite and specific authority to deal with real estate mortgages, the acquisition of real estate through purchase of title in lieu of foreclosure and the handling of real property to meet changed conditions.*

Out of the experience of trustees during the past few years, trust men say that the best interests of estates would have been better served if the trustee had been empowered to change the terms of guaranties, continue mortgages after maturity without renewals or extensions and retain property bought in under foreclosure as well as having been in a position to dispose of property by sale, exchange or otherwise, upon such terms and conditions as seem best.

Mr. Lewis' list of 16 flaws in wills might be supplemented by 11 Don't's in Discretionary Powers of Trustees under Wills and Trust Agreements, by Gilbert T. Stephenson, Director, Trust Research Department, The Graduate School of Banking. These 11 points relate to ambiguous language:

1. Don't direct or authorize the trustee "to invest in *good income-bearing securities*", and stop there.
 2. Don't direct or authorize the trustee "to invest in *first mortgage bonds*", and stop there.
 3. Don't direct or authorize the trustee "to invest in *municipal bonds*", and stop there.
 4. Don't direct or authorize the trustee "to invest in *first class bonds* which are *readily marketable*", and stop there.
 5. Don't direct or authorize the trustee "to invest in obligations of the United States, selecting such as yield the *best available rate*", and stop there.
 6. Don't provide in one part of the instrument that the trustee shall invest *only in legals* and in another part that, during the settlor's lifetime, the trustee shall invest *only as he directs*.
 7. Don't provide in one part of the trust instrument that the trustee shall invest and reinvest *at its discretion* and in another part that it shall invest and reinvest as may appear *expedient or advisable*.
 8. Don't provide that the trustee shall have the *same investment powers as the settlor or testator would have*, if living.
 9. Don't enumerate certain types of securities and then generalize with the phrase "*or other securities*."
 10. Don't provide that the trustee *may*, "*with the consent of the settlor*," invest and reinvest, and stop there.
 11. Don't give the trustee full discretionary power as to investments without specifying the classes of securities (common stocks, for instance, if they really are meant to be included) in which the trustee may invest.
-

The ideal will is one that is not only legally sound but administratively workable—planned in such a way as to avoid tax extravagance and to accomplish the transfer of property without the payment of unnecessary levies for this privilege. The best way to make sure of achieving this object—according to the views of these seasoned and experienced trust men—is a three-way conference with the maker of the will, his own lawyer and a practical trust officer, joining in the estate planning and checking all features. If such a procedure of careful planning were generally followed, it is reasonable to believe that there would be a smooth performance during the period of estate settlement.

A Form of Life Insurance Assignment

THE Bank Management Commission of the American Bankers Association has been studying the problem of bank loans secured by assigned life insurance policies with the view of developing a form of assignment that would uniformly be accepted by the insurance companies. After a year's study the committee appointed by the Commission drafted a form containing the provisions deemed desirable from the bankers' viewpoint and submitted it to the Association of Life Insurance Counsel at their Spring, 1938, meeting. Life insurance companies generally have looked with disfavor upon the use of life insurance as collateral for commercial loans because, unlike other security, it has an intrinsic value far greater than its security value and, if applied in payment of a loan, can seldom be replaced at the same cost and often cannot be replaced at all. Nevertheless, the Association, recognizing the desirability to both the bankers and insurance companies of uniformity in forms of assignments, appointed a committee to cooperate with the bankers' committee in drafting a form that, so far as possible, would meet the varied requirements of all interested parties. These committees have completed their work and suggest the form that is printed below.

In considering this form it must be borne in mind that it is a compromise of the views of widely divergent interests. H. K. White, chairman of the bankers' committee, stated in submitting the draft to the Commission:

"No form can be perfect from the point of view of every individual. * * * It is appreciated that counsel for individual banks will have suggestions to make in regard to phraseology or provisions which they think should be excluded or included. The form as now presented has been gone over innumerable times with this in mind and the exclusion or inclusion of any provision, phrase or word has been made after careful deliberation and with a definite purpose in mind. Uniformity in assignments is an advantage to the insurance companies and one of the considerations which has resulted in their interest and cooperation so that the present form should not be altered in any way except in order to conform to some unusual transaction. Any change must necessarily destroy the primary purpose of this Association's effort and result in delays and misunderstanding in any action required thereunder of the insurance companies.

The position of the insurance companies is aptly expressed by Colonel Edward J. Boughton, attorney for the Metropolitan Life Insurance Company and a member of the committee representing the Association of Life Insurance Counsel, in a letter to Frank W. Simmonds, Senior Deputy Manager of the American Bankers Association and Secretary of the Bank Management Commission, as follows:

"Mr. White is very right in saying that 'uniformity in assignments is an advantage to the insurance companies and one of the considerations which has resulted in their interest and cooperation.' The willingness of the insurers to accept and implement the proposed assignment form is primarily because of the substantive provisions that it contains, which recommend themselves to the insurers' sense of fairness and duty to their policyholders and beneficiaries. * * * Departures from the form may therefore destroy the insurers' willingness to accept it. * * *

"But beyond that, there is another practical reason for uniformity from the insurers' point of view, which has nothing to do with the merits of variations that may be introduced. That is that insurance companies are not geared to examine structurally each assignment presented by individual banks in order to discover whether there has been a modification and if so whether such modification is acceptable to it. The Company which I represent, for instance, has spent a great deal of time and thought on the proposed form just as it is written and has concluded that it will be able to accept and implement it. I think that is true also of most if not all of the other insurance companies. In our administration of collateral assignments we shall all be able to establish that rule of thumb with respect to this particular form, provided that our clerks can recognize it at a glance as the form concerning which the rule has been made, without change. It is therefore important that forms received from individual banks should bear some sort of identifying mark that will give the insurer dependable assurance that it has not been departed from.

"I recognize that there is always a temptation on the part of executive

officers of individual banks, or their legal counsel, to make modifications and changes perhaps born of their individual experience or perhaps dictated by superior wisdom and skill in draftsmanship. Such changes may be in fact an improvement in the form. They may, on the other hand, destroy the inducement of the insurers' administrative rule to accept it. * * *

In recommending the use of this form, H. H. Griswold, Chairman of the Bank Management Commission, states that the Commission does not wish to convey the impression that it is sponsoring bank loans on security of assigned life insurance or encouraging the refinancing through banks of loans made by the insurance companies, nor is it representing that the form will be accepted by the various insurance companies. It has been drafted with the assistance of the Association of Life Insurance Counsel and presented as a form which is felt to have more likelihood of acceptance by the insurers than any existing form. The approval of the form by the Association of Life Insurance Counsel is in no way binding on the various insurance companies and only time and usage will determine whether this form will become standard.

Approved and Copyrighted by Bank Management Commission, American Bankers Association

PROPOSED STANDARD FORM OF COLLATERAL ASSIGNMENT Assignment of Policy as Collateral Security

A. FOR VALUE RECEIVED the undersigned hereby assign, transfer and set over to of , its successors and assigns, (herein called the "Assignee") Policy No. issued by the Life Insurance Company (herein called the "Insurer") and any supplementary contracts issued in connection therewith (said policy and contracts being herein called the "Policy"), upon the life of of and all claims, options, privileges, rights, title and interest therein and thereunder (except as provided in Paragraph C hereof), subject to all the terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The undersigned by this instrument jointly and severally agree and the Assignee by the acceptance of this assignment agrees to the conditions and provisions herein set forth.

B. It is expressly agreed that, without detracting from the generality of the foregoing, the following specific rights are included in this assignment and pass by virtue hereof:

1. The sole right to collect from the Insurer the net proceeds of the Policy when it becomes a claim by death or maturity;
2. The sole right to surrender the Policy and receive the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow;
3. The sole right to obtain one or more loans or advances on the Policy, either from the Insurer or, at any time, from other persons, and to pledge or assign the Policy as security for such loans or advances;
4. The sole right to collect and receive all distributions or shares of surplus, dividend deposits or additions to the Policy now or hereafter made or

apportioned thereto, and to exercise any and all options contained in the Policy with respect thereto; provided, that unless and until the Assignee shall notify the Insurer in writing to the contrary, the distributions or shares of surplus, dividend deposits and additions shall continue on the plan in force at the time of this assignment; and

5. The sole right to exercise all nonforfeiture rights permitted by the terms of the Policy or allowed by the Insurer and to receive all benefits and advantages derived therefrom.

C. It is expressly agreed that the following specific rights, so long as the Policy has not been surrendered, are reserved and excluded from this assignment and do not pass by virtue hereof:

1. The right to collect from the Insurer any disability income;
2. The right to designate and change the beneficiary;
3. The right to elect optional modes of settlement; but the reservation of these rights shall in no way impair the right of the Assignee to surrender the Policy completely with all its incidents or impair any other right of the Assignee hereunder, and any designation or change of beneficiary or election of a mode of settlement shall be made subject to this assignment and to the rights of the Assignee hereunder.

D. This assignment is made and the Policy is to be held as collateral security for any and all liabilities of the undersigned, or any of them, to the Assignee, either now existing or that may hereafter arise in the ordinary course of business between any of the undersigned and the Assignee (all of which liabilities secured or to become secured are herein called "Liabilities"). It is expressly agreed that all sums received by the Assignee hereunder, either in event of death of the insured, the maturity or surrender of the Policy, the obtaining of a loan or advance on the Policy, or otherwise, shall first be applied to the payment of one or more of the following in such order of preference as the Assignee shall determine: (a) principal of and/or interest on Liabilities; (b) premiums on the Policy; (c) principal of and/or interest on loans or advances made by the Insurer on the Policy.

E. The Assignee covenants and agrees with the undersigned as follows:

1. That any balance of sums received hereunder from the Insurer remaining after payment of the then existing Liabilities shall be paid by the Assignee to the persons entitled thereto under the terms of the Policy had this assignment not been executed;
2. That the Assignee will not exercise either the right to surrender the Policy or (except for the purpose of paying premiums) the right to obtain policy loans from the Insurer, until there has been default in any of the Liabilities or a failure to pay any premium when due, nor until twenty days after the Assignee shall have mailed, by first-class mail, to the undersigned at the addresses given hereinbelow, notice of intention to exercise such right; and
3. That the Assignee will upon request forward without unreasonable delay to the Insurer the Policy for endorsement of any designation or change of beneficiary or any election of an optional mode of settlement.

F. The Insurer is hereby authorized to recognize the As-

signee's claims to rights hereunder without investigating the reason for any action taken by the Assignee, or the validity or the amount of the Liabilities or the existence of any default therein, or the giving of any notice under Paragraph E (2) above or otherwise, or the application to be made by the Assignee of any amounts to be paid to the Assignee. The sole signature of the Assignee shall be sufficient for the exercise of any rights under the Policy assigned hereby and the sole receipt of the Assignee for any sums received shall be a full discharge and release therefor to the Insurer. Checks for all or any part of the sums payable under the Policy and assigned herein, shall be drawn to the exclusive order of the Assignee if, when, and in such amounts as may be, requested by the Assignee.

G. The Assignee shall be under no obligation to pay any premium, or the principal of or interest on any loans or advances on the Policy whether or not obtained by the Assignee, or any other charges on the Policy, but any such amounts so paid by the Assignee from its own funds, shall become a part of the Liabilities hereby secured, shall be due immediately, and shall draw interest at a rate fixed by the Assignee from time to time not exceeding 6% per annum.

H. The exercise of any right, option, privilege or power given herein to the Assignee shall be at the option of the Assignee, but (except as restricted by Paragraph E (2) above) the Assignee may exercise any such right, option, privilege or power without notice to, or assent by, or affecting the liability of, or releasing any interest hereby assigned by the undersigned, or any of them.

I. The Assignee may take or release other security, may release any party primarily or secondarily liable for any of the Liabilities, may grant extensions, renewals or indulgences with respect to the Liabilities, or may apply to the Liabilities proceeds of the Policy hereby assigned or any amount received on account of the Policy by the exercise of any right permitted under this assignment, without resorting or regard to other security.

J. In the event of any conflict between the provisions of this assignment and provisions of the note or other evidence of any Liability, with respect to the Policy or rights of collateral security therein, the provisions of this assignment shall prevail.

K. Each of the undersigned declares that no proceedings in bankruptcy are pending against him and that his property is not subject to any assignment for the benefit of creditors.

Signed and sealed this . . . day of . . ., 19 . . .

Witnesses:

..... (L.S.)
Insured or Owner

..... Address (L.S.)

..... Beneficiary (L.S.)

..... Address

(Notarial Acknowledgment)

Copies of the above copyrighted form may be secured from the Bank Management Commission, American Bankers Association, 22 East 40th Street, New York, N. Y., at \$1.75 per hundred. With each order will be sent an explanatory pamphlet for the guidance of banks in using such form.

The Use of Visual Education

By JOHN J. McCANN

MR. McCANN, who writes regularly for BANKING, has followed closely the many recent developments in visual education. At the present time a motion picture is being produced for the banking field by BANKING, Journal of the American Bankers Association. Its subject matter will show the close relationship between banking and business and demonstrate how business is dependent on the many services which banking renders.

EACH year industrial companies have increased film budgets to the point where the motion picture takes the lead position in public relations. The roster of film users reads like the blue book of American business, but not all are industrial giants. Many small concerns with a few hundred dollars to invest have, contrary to Hollywood legend, found the powerful force of films equally profitable.

Today, more than a million feet of informational film material is being circulated by various Government agencies, most of them now organized under the United States Film Service. Associations of all kinds are now relying upon films to perform an educational job. The film has entered school curricula and is considered modern and indispensable. Foundations have been established to further film use in the classroom from grades to universities. Close on the heels of technical advance of photography are the new uses for which films are employed.

While the progress of film use by banks has been slow to this point, compared to other fields, it has nevertheless been thorough, closely watched, and in every instance reported satisfactory and profitable. Amazing as it may seem, films have been used by banks to some extent for the past 20 or more years. Back in the days of the nickelodian flickers it was quite common for the bank to join the corner druggist and other community merchants sponsoring hand-colored slides on the screen, each plugging a service or product.

The offshoot of this same type of film use, now popularly known as "minute movies" or theater shorts, still attracts a large number of banks, indicating that value continues. According to latest reports, between 300 and 500 banks are using or have recently used theater advertising.

THE OLD-TIMERS

THE style and technique of current "minute movies" is vastly different from the original single slide. Sequence and sound add interest and tell a more complete story. Basically, however, the principle is the same. Campaigns on housing and automobile loans, checking accounts, savings and other services have been built around this type of film. Several syndicate companies offer a complete film library on bank service on lease arrangement for local theater showings. Custom-made theater shorts also seem to have found wide favor. More recently the Industrial Morris Plan Bank and Commonwealth Bank of Detroit sponsored FHA loan and auto loan campaigns in the city's 80 neighborhood theaters. These films were specially designed and produced by a commercial company. Several Georgia banks recently used the

newsreel type of film showing interior and exterior views of the bank for the same purpose.

In the banking field film adaptation beyond theater use is a development of the past decade. This is the period in which industrial films also came of age. "The Story of A Bank Book" was among the first to gain recognition as an entry in the new era of industrial photography. It was produced by a commercial company and copies sold to a number of banks in the East. The film opened with a picture of the individual passbook of each institution, tacked on as a leader, and followed with a simple thrift playlet with the passbook as central theme. This film, at first a novelty, was shown in New York City theaters and in other large cities by local sponsors. A limited circulation was also obtained in schools and among adult groups by institutions which purchased or rented the necessary equipment.

A number of individual pictures were made in the early period by a few large institutions, but these are interesting only for the archives. The subjects were new bank building construction, corner stone ceremonies, personnel and anniversaries. Circulation was also confined to local groups, mostly interbank.

A FILM OF NATIONAL INTEREST

THE first film of national significance was "Transamerica", a talking motion picture showing the 30-year progress of Transamerica Corporation in San Francisco, made especially for the California Pacific International Exposition at San Diego in 1935. An average daily attendance of 2,000 viewed the film during the Exposition. It was later sent on tour of all communities served by the Bank of America, in California, First National Bank of Portland, in Oregon, and the First National Bank, Reno, Nevada. It also toured the East giving, in addition to surplus circulation, 225,000 stockholders a first opportunity to see the internal workings of their organization.

The 27 minutes of "Transamerica" opened with flashes of customers transacting business over desks and counters of branch or affiliate organizations. The spectator was whisked from the Bank of America Chinatown branch in San Francisco serving the largest Oriental population in the Western Hemisphere, to its international banking branch at London, to Portland, to Reno, to the Banca d'America e d'Italia in Italy.

The next experiment in public education, developed somewhat along the same line, was the Ninth Federal Reserve District film, "Back of Banks and Business". Skits, scenes from the bank's departments, machinery in action, moving charts, animated maps, and off-stage voice gave a full biography of the Federal Reserve Bank at Minneapolis and through it visualized the functions of the Reserve System in general. This film was produced at a running time of 26 minutes, in two sizes, 16mm and 35mm, for theater and portable use. Released in the Fall of 1935, the film quickly gathered an audience covering the full area served by the institu-

tion. Showings were arranged by local banks in theaters, schools, and at various adult gatherings.

The National City Bank of New York further demonstrated the flexibility of motion pictures in presenting its world-wide operations with "The March of Trade"—a 16mm sound film showing a kaleidoscopic view of personnel, banking quarters, plants, offices and products of leading firms served by 71 overseas branches, with New York City sequence, maps and other graphic props. Altogether some 80,000 feet of film was edited down to a half hour showing.

PRODUCTION OF A STATE GROUP

"YOUR Money and Mine", recent production of the Wisconsin Bankers Association, the first sponsored by a state group, adds significantly to the growth of interest in motion pictures. The preview showings to employees, officers and directors of county associations prior to public release reflect the splendid cooperative spirit in which the film was received by member banks. Eighty-three per cent of the state's 71 counties arranged for showings in the first five months. These meetings were attended by approximately 3,000 employees, officers and directors; an evidence of the working force which will assist in later public showings through local outlets.

Efforts at visual education have not all been confined to methods and operations as a theme. An excellent source of film presentation is 4-H clubs. A most interesting job has been done during the past two years by the United States National Bank (Portland, Oregon), which financed the production of two films, placing them under complete supervision of the State Director of 4-H, Oregon State College.

The first film, two reels of 16mm silent, shows club members enrolled on the campus attending daily assembly, various county delegates, club leaders and other personnel prominent in state 4-H activities. This serves as an introduction to part II, which gives a documentary presentation of class activities, including livestock judging and a class in roping. The second color film, also produced in 1937, extends the presentation of activities to special events of the season and winners of the various contests held.

FILMS FOR CHILDREN

LIKE industrial companies, banks have further explored the junior market of audiences and discovered eager interest among schools, both private and public. The only circulation problem in this connection is the small number of bank films presently available and an extremely large demand from adult groups which makes it impossible to concentrate appreciable efforts in the schools.

However, an inkling of the possibilities in this class may be gleaned from the experience of Philadelphia Saving Fund Society, which has sponsored films in local schools consistently since 1926. In that year a thrift dramatization—"Money Talks"—opened the original program of visual education. Then followed a series of productions based on thrift themes: "Saving Grace" in 1929, "Top Earth" in 1931, "Fortunate Youth" in 1933. Last year, two films were purchased from the Yale University film series "Chronicles of America"—"Declaration of Independence" and "Daniel Boone".

Great strides in film experience have also been made with amateur productions. The first of this class to break into national prominence was a color film, "Richmond Under Three Flags", produced by the Morris Plan Bank of Virginia

as a complimentary feature of Richmond's bicentennial celebration in the Fall of 1937. Produced at the cost of \$500, the film was later used by the Virginia Conservation and Development Commission in tourist promotional activities. It was an institutional film depicting the commercial, historical, and cultural aspects of Virginia's capital city, and was adjudged one of the best 10 non-theatrical films of 1937 by the Amateur Cinema League of New York. It was also selected by the British Film Institute as one of the foremost American films on American subjects. It was shipped to England in 1938 for a tour of that country under the auspices of the Institute.

The First National Bank, Sharon, Pennsylvania, produced an amateur silent motion picture in 1936 on simple routine bank operations to acquaint stockholders with behind-scenes procedure, to the end of stimulating their interest at regular meetings. This was by no means a pretentious undertaking; total production cost was only \$105. Yet, according to C. E. Brockway, president, the film not only accomplished its purpose for stockholders, but was widely and favorably received wherever shown.

"Sheep in the Clarksville Trade Area", by First National Bank of Clarksville, Tennessee, illustrates another important phase of amateur development. This film was linked to the bank's four point program designed to help increase farm profits locally. The film demonstrates how a number of well known farmers in the area increased sheep-raising profits through participation in the bank's program, many with the aid of bank loans. Fifty-one different groups within a 30 mile radius of Clarksville have attended special community meetings at which the film was shown, practically 100 per cent coverage of the entire area. (See page 43.)

FILMS DO A RANGE OF JOBS

THE economy of films for other phases of community and employee work has been attested by a wide range of experiences. Farmers and Merchants Bank (Milligan, Nebraska), for example, showed 800 feet of community films at the local auditorium during the Christmas season of 1937. Seattle-First National Bank, Seattle; Bank for Savings, New York City; and the Dime Savings of Brooklyn, are among the growing list of institutions employing films for recreation use of staff members.

The Continental Illinois National Bank and Trust Company, Chicago, recently produced "Sound Business"—a 23 minute sound-slide film dramatizing approved practices of the bank in the use of the telephone. This item suggests the advance of films in the direction of customer relations. Similar films have been used by the First National Bank of Palm Beach as a means of employee training.

Some amateur efforts may well be said to rival professional productions. "Sixty Thousand A Day" was made by two employees of the Riggs National Bank (Washington, D. C.), acting on their own initiative, with a view to making a contribution to the bank's customer relations program. The film was exhibited at a staff meeting about one year ago, and with no effort to solicit outside showings, requests rolled in by the score. As a result, quite a diversity of groups have since been favored, including schools, luncheon clubs and others. Total circulation locally runs to several thousand, but interest on the outside has drawn the film on an extended tour to banks in many states, A. I. B. chapters and other organizations. George O. Vass, vice president, stresses the value of the film for local educational purposes.

A Quick Glance at Auto Loans

By HOWARD HAINES

The author is Executive Vice-president of the Quindaro State Bank, Kansas City, Kansas. He has recently made a nationwide study of automobile loan costs to banks.

THAT huge slice of the American public which pays for its automobiles out of income has become rate-conscious. It is a natural development with so many low-rate banners flapping against one another.

Banks that have not specialized for some time have found it difficult to determine what costs and losses may be expected in making and collecting automobile loans. As the figures are found to vary slightly in all banks, for the purpose of arriving at fair averages on set expense of car loans, we average the expense of those slightly higher than the "lows". Set expense, excluding cost of funds, variable in each institution, and excluding profit, is as follows:

1. Banks having resources up to one million: \$4.00 per hundred outstanding per year.
2. Banks of from one to two million resources: \$3.75 per \$100 outstanding per year.
3. Banks of from three to five million resources: \$3.50 per \$100 outstanding per year.
4. Banks of from five to ten million resources: \$3.25 per \$100 outstanding per year.
5. Banks of from ten million resources upwards: \$3.00 per \$100 outstanding per year.

The principal reason for the lower expense in larger institutions is the larger amount of clerical assistance, which lowers salary costs, allows grouping of credit calls and permits other savings of repetition by massing details.

Reports from large and small institutions in the various states will bear out closely the following picture:

Eighty-two per cent of reporting banks are making direct car loans.

Seventeen out of the 82 are not anxious to make them, but do so in the case of good customers.

Twenty-five are advertising occasionally and charging one-half of their publicity expense to their personal loan department, in which they feel the car loans are one of the principal ingredients.

The remaining 40 are advertising regularly and plan to develop volume.

The 18 per cent of banks not making car loans give as their reasons that they:

1. Prefer collateral loans with finance companies and dealers.
2. Do not feel the volume they could get would be sufficient to justify itself in a large bank.
3. Send applicants to a low-rate company with which they do business.

Three per cent of banks reporting are seeking dealer paper. Some are not attracted to car loans because of their knowledge of losses on repossessions, skips and collections experienced by finance companies. Many believe the major old-line finance companies offer dealers a very complete service that could not be equalled by banks.

All loan men agree that new cars are handled at less cost than smaller denomination loans on used models. Few banks are going beyond 1936 models. Many stick to the last two years.

Our compilation of costs explodes the long stated theory that volumes of less than \$100,000 cannot be handled profitably. Salaries are the principal item to reduce as volume climbs. The saving from \$25,000 to \$100,000 in total loans is only slight. In the small bank, officials handle most of the details and their salaries are sometimes higher than the average in the large department where one official directs perhaps 50 other helpers. Small banks are generally reserving too much for anticipated taxes, but their collections are less costly in most cases and they save on credit investigation because local people need less "looking up". Larger banks spend more for credit data, primarily because they are seeking business on a volume basis, and also because they develop the auto owner into a permanent customer.

There are two types of sliding rates in use. Some offer a reduced rate on any amount in excess of \$500. Others reverse the reasoning and offer the lowest rate if the carry-back is less than 40 per cent of the delivered price of car, a slightly higher rate from 40 per cent to 50 per cent, and still higher if the amount to be financed is over 50 per cent.

COSTS VARY WIDELY

WHEN costs of making, servicing and collecting auto loans are analyzed, the items of credit investigation and collections show a variance that is explained largely by slightly different theories in practice. For example, certain banks now have decided to refuse re-financing in any form. Re-financing is sought by car owners needing lower instalments, more money and, in some cases, by those aware of some imminent change in earnings or employment. Thus, taking over loans may, except where the customer is intimately known, result in unsatisfactory accounts with higher collection expense. "Loans to buyers only" is a good rule. It is used by one bank with a collection cost of 20 cents per \$100.

One bank in the three-million-resources class reports advertising expense at 42 cents per hundred per year. Its plan is unique for keeping its name always before car owners, and is worth mentioning. During the past two years it has aided its city's safe driving commission in educating drivers in safety rules. It distributes pamphlets on safety rules and broadsides cards with its compliments, illustrating the proper signals for left and right turns, as well as speed limits on the principal thoroughfares. Directors of safety programs ask this bank for such material and do the distributing free.

This is a highly detailed bank service and the profit may be none too great, but it is appreciated by thousands of borrowers. This is attested by the numbers who become permanent customers. For the first time, they have felt intimately how their bank can help them. Automobile loans are opening—as all expansion of bank service has opened—new vistas in financial education.

The Trend of Things



INTERNATIONAL

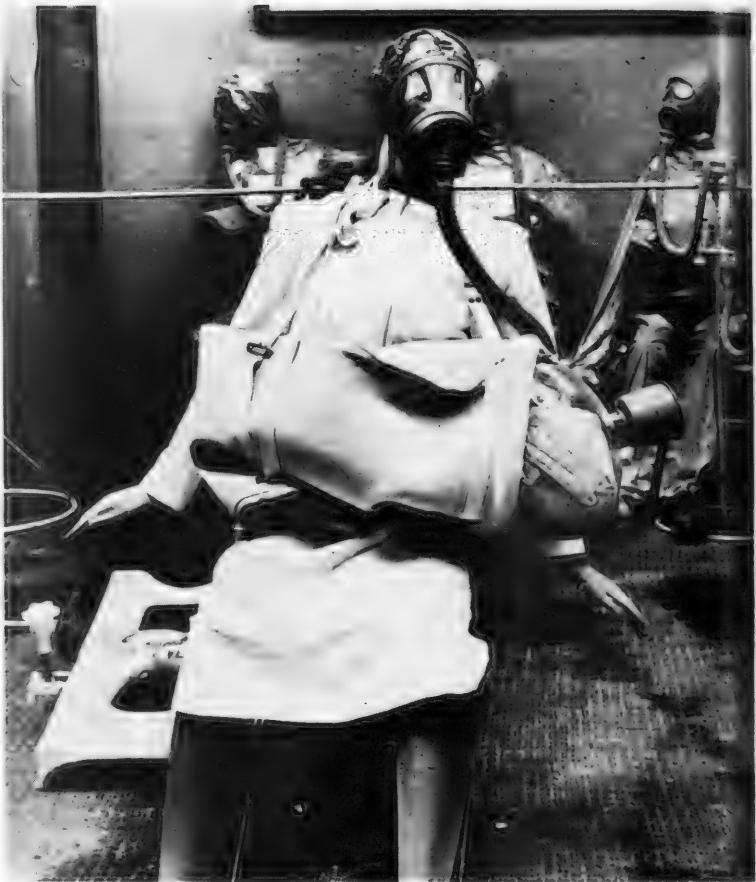
ARE WE GOING TO BE NEUTRAL—OR CAN WE? In the last analysis, no matter what Washington orators and "spokesmen" may say, public opinion will decide the question on the merits of any conflict that tends to drag us in. Meanwhile, the army is wisely going ahead with its top-to-bottom modernization program. *Above*, an explosion of phosphorus to form a smoke screen during maneuvers of the chemical warfare service

ARE LABOR SQUABBLES GOING TO CONTINUE INDEFINITELY? Into the habitual skirmishing of the AF of L and the CIO, was injected the phenomenon of these two organizations working together for the benefit of the WPA—and themselves—when Congress and the Executive boosted the monthly hours of work on relief projects



WIDE WORLD

HOW LONG CAN EUROPEAN NERVES STAND THE STRAIN OF CONSTANT CRISES? One misguided act could put the Continent's civilian population in such fantastic clothing as this—a gas protection outfit for mother and child. Map printers have taken time out, for almost any international border in Europe or Asia is a potential sore spot



WIDE WORLD

HOW LONG IS AN INCIDENT AN INCIDENT? The ramifications of Japan's prolonged "China incident" have brought stern warnings at different times from the United States, England and France, and actual warfare—to what extent no one really knows—with Russia. Meanwhile, the truculent Oriental empire has closed all but the backdoors to China



EUROPEAN

BANKING



ACME

WHAT HAS BEEN THE NET WORTH OF THE 76TH CONGRESS' FIRST SESSION? *Above*, Senators Johnson, Borah, Pittman and Harrison engaged in discussion of neutrality legislation, major source of debate in the session's final days. *Below*, Senators Wagner, Barkley and Minton, proponents of monetary control in the White House, who brought about an Administration victory on monetary powers that will probably not be used, but at the cost of a higher price for domestic silver



ACME

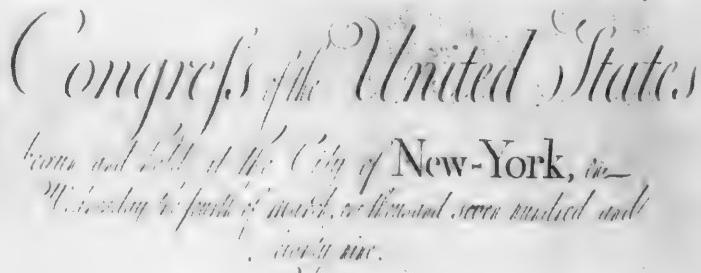
The Granddaddy of Federal Taxes

EVEN with ice cubes and air-conditioning, Capitol Hill is conceded to be no place for a Congressman in Washington's hot Summer months. Pity the perspiring lawmakers who convened for the First Session of Congress on March 4, 1789, in New York (where the climate isn't much better). Dressed in the picturesque but scarcely cool garb of the time, and steaming under their powdered wigs, they worked at their legislative job until September 29 of that year, a century and a half ago, meanwhile devising some of the nation's most important statutory landmarks.

One of these is shown below, reproduced from the original in the Federal archives. The first act for raising revenue under the constitution, it was passed July 4, 1789, under the title, "An Act for Laying a Duty on Goods, Wares, and Merchandises

Imported into the United States". The necessity for the act is clearly shown in its brief preamble: "Whereas it is necessary for the support of the Government, for the discharge of the debts of the United States, and the encouragement of manufactures. . . ." The act was to take effect from and after August 1, 1789. The original bears the signatures of Speaker Frederick Augustus Muhlenberg, Vice-president Adams and President Washington.

Some of the duties imposed were: "On all distilled spirits of Jamaica proof imported from any Kingdom or Country whatsoever ten Cents; . . . On all Shoes, Slippers, or Goloshoes made of leather per pair seven Cents; . . . On Wool and Cotton Cards per dozen fifty Cents; . . . On Pickled Fish per barrel seventy-five Cents; . . . " Ten lines of the document were devoted to the duties on various kinds of tea.



An Act for laying a duty on Goods, Wares, and Merchandises, imported into the United States.

Whereas

...for the support of government, for the discharge of the duties of the state, and the punishment of offenders.

ALTHOUGH the Act of July 4, 1789, contained sections which were to take effect on August 1, no legal provision for collecting the revenue was made until the last day of July, when President Washington approved. Below is reproduced the beginning of this

act, entitled "An Act to Regulate the Collection of the Duties Imposed by Law on the Tonnage of Ships or Vessels, and on Goods, Wares, and Merchandises, Imported into the United States." The act established customs districts, ports and officers.

Congress of the United States,

Begun and held at the City of New-York, on Wednesday
the fourth of March, one thousand seven hundred and eighty nine.

Chap. C. To regulate the collection of the duties imposed by Law on the tonnage of Ships or Vessels, and on Goods, Wares, and Merchandises, imported into the United States.

Be it enacted by the Senate and House of Representatives of the UNITED STATES of America, in Congress assembled, that for the collection of the duties imposed by law on the importation of sugar and coffee, and on Goods, Wares, and Merchandises imported into the United States, there shall be established and appointed District Ports and Offices in manner following, to wit:

The State of New Hampshire shall be one district, to include the towns of Portsmouth as the sole port of entry, and the towns of Dover and Exeter as ports of delivery only, but all ships or vessels bound to or from either of these said ports of delivery, shall first come to, enter and clear at Portsmouth, and no vessel, collector and surveyor for the said district shall be appointed to reside at Portsmouth.

In the State of Massachusetts shall be divided into ports of entry, to wit, Newbury Port, Gloucester, Salem and Beverly across port; Marblehead, Boston and Charlestown one port; Plymouth, Barnstable, Nantucket, Edgartown, New Bedford, Dighton, York, Duxbury and Apponaugus across port; Portland and Falmouth across port; Bath, Wiscasset, Rockland, Frenchman Bay, Machias and Popham Bay. In the district of Newbury port shall be annexed the several towns or landing places of Newbury, Salisbury and Newgate, which shall be ports of delivery only, and a Collector, Naval Officer, and Surveyor for the said towns or landing places shall be appointed to reside at Newbury port. In the district of Gloucester shall be annexed the town of Manchester, as a port of delivery only, and a Collector and Surveyor shall be appointed to reside at Gloucester. To the district of Salem and Beverly shall be annexed the towns or landing places of Danvers and Ipswich, as ports of delivery only, and a Collector, Naval Officer and Surveyor for the district shall be appointed to reside at Salem, and a Surveyor to reside at each of the towns of Beverly and Ipswich. In the district of Marblehead shall be annexed the town of Lynn as a port of delivery only, and a Collector for the district shall be appointed to reside at Marblehead. In the district of Boston and Charlestown, shall be annexed the towns or landing places of Medford, Chelsea, and Hingham, as ports of delivery only, and a Collector, Naval Officer, and Surveyor shall be appointed to reside at Boston. In the district of Plymouth shall be annexed the several towns or landing places of Duxbury, Duxbury and Edgartown as ports of delivery only, and a Collector for the district shall be appointed to reside at Plymouth. In the district of Barnstable shall be annexed the several towns or landing places of Sandwich, Yarmouth, Westport, Provincetown and Chatham as ports of delivery only, and a Collector for the district shall be appointed to reside at Barnstable. In the district of New Bedford, the port of Falmouth shall be the sole port of entry and delivery within the same, and a Collector shall be appointed to reside at Falmouth. In the district of Edgartown shall be annexed the town of Tisbury, as a port of delivery only, and a Collector shall be appointed to reside at Edgartown. In the district of New Bedford shall be annexed Walpole, Rochester, and Wareham, as ports of delivery only, and a Collector for the district shall be appointed to reside at New Bedford. In the district of Dighton shall be annexed Scituate and Braintree as ports of delivery only, and a Collector for the district shall be appointed to reside at Dighton. In the district of York shall be annexed Hiltown and Berea as ports of delivery only, and a Collector for the district shall be appointed to reside at York. In the district of Duxbury and Pepperell Bay shall be annexed Charlestown, Wells, Newmarket, and Coggeshall, as ports of delivery only, and a Collector for the district shall be appointed to reside at

The signatures at the end of the act shown above

of a citizen or citizens thereof, or one or more in a group, committed in the course of any of the acts which the property of citizens of the United States, and so continuing until the day of the final judgment.

Father of the Nation *Mohandas Karamchand Gandhi* ... Speaker of the House of Representatives.

Vice-President of the United States, and President of the Senate.

Observed July 16. 1789

President of the United States

In the Days of Chief Seattle

ONE common characteristic of every locality in the United States is the prevalence of Indian place names—in New England, the South, the Southwest and, certainly no less, in the Northwest. Many of these names are not even associated now with their once famous owners.

When, in 1852, 21 white settlers organized a community in

what is now northwestern Washington, they named the place for a friendly neighboring Indian—Chief Seattle. Evidently the town's inhabitants bore the Chief no ill-will for the determined Indian attack on their village in 1856, for they continued to use his name when the settlement was incorporated a short time after his death in 1866.



Above, the first known picture of Washington—of the Straits of Juan de Fuca, entrance to Puget Sound—published in Paris in 1790



Above, "Astor's First Trip for Furs". As an immigrant in 1783, Astor met on shipboard a fur-trader who interested the young German in that business' possibilities in the American wilderness. In 1811 Astor established a central depot, Astoria, for his vast organization at the mouth of the Columbia River

Left, baby-joggling was as much a part of the fur-trader's technique as the politician's. There was considerable rivalry between fur companies, and a few trinkets and a little attention for the youngsters helped business



CURTIS

Above, Seattle about 1862, from a contemporary painting. The white building on the skyline about a third of the way across the picture from the left is the University of Washington, which was located on the present site of the Olympic Hotel, A. B. A. Convention headquarters. Below, the first known picture of Seattle, drawn in 1856 by Lieut. Phelps of the U. S. Sloop-of-war *Decatur*. It was the *Decatur* that saved Seattle's inhabitants from the Indians in the year this drawing was made



Below, the encampment of Lieut. Puget on Puget Sound, from a book published in 1857





WEBSTER & STEVENS

Above, Princess Angeline, daughter of Chief Seattle. For many years she was a familiar figure on the city's streets.

Left, the monument at Alki Point where Seattle's first settlers landed in 1851 and from which they went to the city's present site. There were 21 in this group.

Below, the early stagecoach line connecting California and the Northwest. This stage route was opened May 2, 1866. The cut below is reproduced from a series of historical advertisements of
The Bank of California



Ad Stickers On Checks

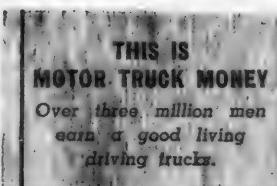
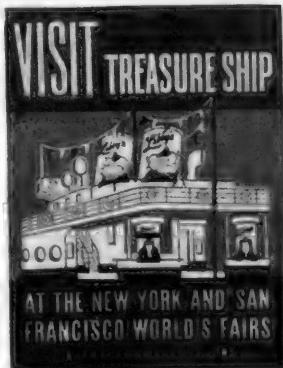
PRINTED in bright colors and attractive designs, small stickers carrying advertising messages are being attached to checks by individual manufacturers and industrial groups. Often, as shown by examples on this page, the design is subordinated to a terse statement or industrial fact.

* * *

The Libby and Louisiana sugar stickers at the right and the Missouri Pacific ad at the lower left corner of this page are of the first kind—printed in attractive colors. The Savings Bond slip in the lower right corner is of still another type, and is not gummed.

* * *

Opinions received from users of this kind of advertising indicate a favorable opinion of its effectiveness. One company orders its colored stickers in lots of 100,000. The stickers shown here are part of those which passed through one medium-sized bank in two days.



This check was issued post dated. Payment is not due until the date thereon. It must not be endorsed, deposited or cashed prior to its date. Avoid its being returned dishonored by observing this restriction.

THE LINCOLN NATIONAL LIFE INSURANCE CO.
Form No. 2095-11-36-5000



THE enclosed check covers redemption of United States Savings Bonds in accordance with your request for payment. These bonds, primarily intended for small investors, provide security of principal, a reasonable return on investment, and a reserve which is readily available in any emergency. Your interest in Savings Bonds, as

evidenced by ownership of the bonds which you have just presented for payment, is very much appreciated. We hope that you have received in the purchase and redemption of these securities prompt service and that you will take advantage of this form of investment for your savings whenever you desire to put funds aside for future needs.

000 9-17782



The Longest Way 'Round

By MORGAN DENNIS





An Educational Moving Picture



Above, part of the flock of Judge John T. Cunningham, who has successfully raised sheep for 21 years. He uses no elaborate equipment, housing his sheep in a shed on his stock barn

SHEEP in the Clarksville Trade Area (see May BANKING, page 67) is a natural color motion picture produced by the First National Bank of Clarksville, Tenn. The people who appear in the film are all local farmers who were selected because their activities represent an accurate picture of sheep raising in the area.

The bank's purpose in making the film was to illustrate the possibilities for its locality in this particular branch of agriculture. However, the film also aims at a generally improved program of livestock raising and farming. Remarkable evidences of interest in the film have been shown by the long distances that members of the audiences travel to attend showings. Each one receives a booklet which summarizes the film and gives case histories of the 19 farms shown in the picture.

On this and the next page are a few "stills" which give a cross section of the material used. The captions are based chiefly on information in the booklet.

Below: left, a flock of 250 ewes and their modern barn; right, part of I. R. Peterson's profitable flock of Hampshires in a unique and inexpensive shed on the south side of a stock barn





Left, a pure-bred ewe and lamb belonging to the registered flock of the Tennessee Farm Corporation. This flock is one of the five local sources of pure-bred rams



Since the Spring of 1937, farmers have taken part in a number of tours of the locality's sheep farms. One of these tours included farmers from 20 mid-Tennessee counties. Part of the program consists of demonstrations of shearing, dipping, etc.



Some Merchandising Ideas



SPEAKING before the Wisconsin Bankers Association, Leo T. Crowley, Chairman of the FDIC, said a few weeks ago: "In pursuing his search for profits the banker would do well, I believe, to apply to his problem the standards and the ingenuity he expects from his customers in other lines of business. In a general way, at least, the operations of banks closely resemble the operations of other businesses"

The pictures on this and the following page, selected at random, show how some banks are already merchandising their services in the manner of other businesses.

Above, real estate loan display in the California Bank, Los Angeles

Left, safe deposit display in the American National Bank of Kalamazoo, Michigan

Below, thrift suggestion in the lobby of the Central Bank, Oakland, California





Above: left, at the Cleveland (Ohio) Trust Company; right, modern bookkeeping methods, contrasted with the old, in the lobby of the First Trust & Deposit Co., Syracuse, N. Y.

Below, an historical display in a window of the McDowell National Bank on the occasion of its 70th birthday





A BANK-TRAINED STAFF FITS RECORDAK TO YOUR INDIVIDUAL REQUIREMENTS



Bank Model Recordak for speeding up the transit operations and for photographing paid checks for the protection of banks and depositors.



Reversible Recordak photographs both sides of checks and larger bank forms at a single operation—and does this at lightning speed.



Recordak Junior for the smaller bank, and for special departments of large banks (tellers' cages, safe deposit vaults, trust and filing departments, etc.).



Commercial Recordak for photographing all bank forms. Widely used for the Recordak system of single posting and other specialized applications.

RECORDAK Systems are *individualized* systems. Drawing on an experience of eleven years in the adapting of photographic accounting to varied banking conditions and requirements, Recordak representatives survey your institution, and create a system "tailor-made" to your individual needs.

Recordak's great flexibility permits ready adaptation to whatever changes may occur from time to time. And this same flexibility enables your staff to handle heavy days, month-ends, and vacation periods with little added effort or extra time.

The services of our staff are available regardless of the amount of monthly Recordak

rental involved. And our advertising department is prepared to assist you in developing advertising campaigns, including exhibits and promotion, built around the protection made possible by photographic records. There is no charge for either of these services.

For further information, write Recordak Corporation, Subsidiary of Eastman Kodak Company, 350 Madison Ave., New York, N. Y.

•
Coming to the New York World's Fair?

You are cordially invited to make your New York headquarters at our offices, 350 Madison Avenue, at 45th Street.

RECORDAK PHOTOGRAPHIC ACCOUNTING SYSTEMS

ANTHRACITE
speaks for itself



in a
WORLD'S FAIR EXHIBIT!

ANTHRACITE speaks for itself in "The White Room," one of the features of the Anthracite World's Fair Exhibit. "The White Room" is both animate and articulate—has action and speaks. Concealed voices tell in a quick and easily understood dialog, why Anthracite provides such healthful heat by the even temperature that avoids "cold seventy." Synchronized lights show, graphically, the points so clearly explained by the unseen voices. Walls, ceiling, furniture and draperies of spotless white tell even better than words, the story of Anthracite's cleanliness.

Everyone should see this exhibit

Everyone with a financial interest in home building should see this whole exhibit . . . See the hand of com-

fort, the wall of protection, the hall of manufacturers with varied types of Anthracite equipment on display. See it not only because it may tell you something new about Anthracite—but also because it is sure to tell you something new about the absorbing interest the public has in Anthracite. Thousands of families are seeing, through this Exhibit at the World's Fair, how efficient, how economical and how *convenient* Anthracite is. They are turning this new knowledge to profit—by making hundreds of purchases every week, of Anthracite equipment for the new homes and modernizing plans that you and others will finance.

ANTHRACITE INDUSTRIES, Inc.
Chrysler Building New York, N. Y.

This Seal of Approval appears on equipment only after a representative sample has satisfactorily passed rigid and impartial tests at the Anthracite Industries, Inc., Laboratories.



Save with
Pennsylvania ANTHRACITE
(HARD COAL)
THE ONLY 7 STAR FUEL

NEWS PAPER

Public Meetings Well Attended California Bankers Plan Fall Series

The California and Georgia bankers associations made good use of the public meeting idea in connection with their annual conventions this year.

So successful has been the Californians' experience, not only at their recent convention but at group meetings last Spring, that the association is planning a series of public gatherings up and down the state as part of the Fall program of its newly formed public relations committee.

The Georgia Bankers Association featured the public meeting at its 48th annual convention in Savannah. H. V. Kaltenborn, news commentator, was the speaker, addressing a large crowd in the municipal auditorium June 7 on the subject "We Look at the World." Tickets were distributed to bank depositors. The Savannah Clearing House was host for the occasion.

The California Bankers Association held its public meeting in the Russ Auditorium, San Diego. The audience was built from depositor lists of the San Diego banks. Names were selected in various ways, but each bank tried to reach a cross section of its depositors.

Allan Jones, radio singer, shared the program with the speaker, Dr. Adam S. Bennion. E. V. Krick, vice-president of the American Trust Co., San Francisco, and association president, presided. Arrangements were made by San Diego bankers.

The Fall meetings will be of two types—the customer clinic and the open meeting featuring a speaker.

A number of other state associations and banker groups have sponsored public meetings since the idea was first used by Orval W. Adams as President of the American Bankers Association.

Consumer Credit Group at Work K. R. Cravens Heads New Association

The Bankers Association for Consumer Credit is now functioning as a trade organization for all bankers in its field.

Kenton R. Cravens, vice-president, Cleveland Trust Co., is president. Other officers are: First vice-president, William H. Flynn, president, Bank of Erie, Pa.; second vice-president, G. Carleton Hill, Cincinnati; third vice-president, Joseph J. Corcoran, Jr., assistant secretary, Marine Trust Co., Buffalo; secretary, George T. Spetigue, Jr., assistant secretary, Colonial Trust Co., Pittsburgh; treasurer, Leland D. Judd, assistant secretary, Lincoln-Alliance Bank & Trust Co., Rochester, N. Y.

The association was formed June 24 at a meeting at Conneaut Lake Park, Pa., attended by nearly 400 bankers from 17 states.

Mr. Cravens said that approximately 10,000 banks in the United States were currently in the consumer credit business.

Speakers Named for Convention Division Meetings, Round Tables

President Benson Announces Part Of Big Program for Seattle

Preston Delano, Comptroller of the Currency; R. E. Gormley, Georgia superintendent of banks; and Fred I. Kent, director, Bankers Trust Company, New York City, will speak at divisional sessions of the 65th annual convention of the American Bankers Association at Seattle, Sept. 25-28, it is announced by President Philip A. Benson.

Comptroller Delano and Dr. H. H. Preston, dean of the School of Economics and Business, University of Washington, will speak at the National Bank Division meeting. Superintendent Gormley and Wood Netherland, vice-president, Mercantile-Commerce Bank and Trust Company, St. Louis, will address the State Bank Division.

Mr. Kent will report at the Savings Division session on the meeting of the International Chamber of Commerce at Copenhagen. P. R. Williams, Division President, will speak on potential competition with banks in the savings business under proposed Federal legislation.

Four round table conferences, providing a new feature of A.B.A. convention programs, will be conducted at Seattle.

At a conference on investments and mortgages, O. P. Decker, vice-president, American National Bank and Trust Company, Chicago, will speak on "Investment Problems Confronting Trust and Savings Departments"; Edward A. Wayne, chief bank examiner, South Carolina, on "A Basis for Analysis of Municipal Securities for Bank Investment"; and Stewart McDonald, FHA Administrator, on "Modern Mortgage Standards." Raymond R. Frazier, chairman of the board of the Washington Mutual Savings Bank, Seattle, will preside.

Ray A. Ilg, vice-president, National Shawmut Bank, Boston, will lead the discussion, "Selecting and Developing Personnel," at a conference on "Personnel and Operating (Continued on page 50)

At the Georgia Public Meeting

Left to right, W. B. Murphy, president, Savannah Clearing House, vice-president, Citizens Bank and Trust Co.; Herbert Huckabee, president, Georgia Bankers Association, vice-president and cashier, Bank of Fort Valley; J. T. Haley, past association president, executive vice-president, National Bank of Albany; A. B. Lovett, attorney; Haynes McFadden, association secretary; and (standing), H. V. Kaltenborn, radio commentator



Legal Department Makes Two Studies

In response to increasing demand for information and guidance in the matter of escheat of bank deposits, inspired in many instances by the repeated introduction of ill-advised and harmful legislation in many states, the Legal Department of the Association has analyzed the laws of the several states on this subject.

The information is particularly helpful to bankers' committees in meeting unsound or adverse legislation which may be introduced in the future, or in the revision of existing statutes.

Continuing its studies and efforts toward the general adoption of a uniform bank code, which is regarded as the soundest defense against a unified banking system, the Legal Department of the Association has analyzed and codified the statutes of each state governing the appointment, tenure of office and qualifications of state supervisory authorities and personnel of the respective banking departments.



TWO PRESIDENTS AT A FAIR

Bankers from several cities went to the New York World's Fair June 14 for American Institute of Banking Day. Above, President Benson of the A.B.A. greets President Smith of the A.I.B. just before the luncheon

Pacific Trust Meeting

Trust Division members have been invited by President Samuel C. Waugh, to attend the 17th Regional Trust Conference of the Pacific Coast and Rocky Mountain states, to be held in Los Angeles, Sept. 19 and 20. This conference, under the auspices of the Trust Division, American Bankers Association, will be held at the Biltmore Hotel.

Tax Survey

A survey of bank taxes in the 48 states is now in preparation by the Association's Legal Department for the use of the Subcommittee on Taxation. An examination is being made of the various taxes imposed on banks and the varying tax burden is being graphed. It is expected the study will be finished this Fall.

Seattle Convention Program

(Continued from page 49)

Problems"; J. J. Gard, cashier, United States National Bank, Portland, Ore., discusses "Work Simplification and Organization for Efficient Operation"; and Claude L. Stout, executive vice-president and cashier, Poudre Valley National Bank, Fort Collins, Colo., "Account Analysis as a Guide to Charges." Edwin V. Krick, vice-president, American Trust Co., San Francisco, will preside.

The program for a round table on "Control of Internal Operations and Earnings" follows: "Expense Control for Better Earnings," led by J. L. Dart, vice-president, Florida National Bank, Jacksonville; "Assignment of Life Insurance Policies as Collateral Security," led by Robert C. Tait, assistant trust officer, Genesee Valley Trust Company, Rochester, N. Y.; "Loss Prevention First-Indemnity Always," led by K. C. Bell, Chase National Bank, New York. W. L. Dean, president, Merchants National Bank, Topeka, presides.

At the round table conference on "Additional Bank Services", Bert H. White, vice-president, Liberty Bank, Buffalo, N. Y., will speak on "Industrial Research as an Aid to Bank Customers"; Herbert V. Prochnow, assistant vice-president, First National Bank, Chicago, on "Recent Credit Facilities for Business"; and W. B. Harrison, president, Union National Bank, Wichita, Kans., on "Meeting the Public Need for Personal Credit." C. L. Robey, president, Purcellville (Va.) National Bank, presides.

A public relations clinic will be held the evening of Sept. 27. Harry R. Smith, president of the American Institute of Banking, will speak on "The Front Line—A Goodwill Focal Point." S. N. Pickard will discuss "Our Experience with Public Meetings." Seattle Chapter, A. I. B., will present a customer relations skit and W. R. Kuhns, editor of BANKING, will show a motion picture, "Money at Work."

Graduate School Has 500 Alumni

Class of 1939 Adds 172 Bankers to List

Students of The Graduate School of Banking conducted by the American Bankers Association at Rutgers University are enjoying the annual vacation that comes between the resident session and the months of extension work at home.

The alumni roster has been swelled to about 500 by the 172 bank officers who were graduated on June 30 at the conclusion of the fifth resident session at Rutgers. This Class of 1939 has organized, electing Roger W. Adams, cashier and trust officer of the State National Bank, Frankfort, Ky., as president, and Melville M. Parker, assistant cashier of the First National Bank, Lebanon, Pa., as secretary.

One of the class's last acts before commencement was to present the university with a gift of \$850 to be added to the fund created by the Graduate School classes of 1937 and 1938 for the establishment of a financial library at Rutgers. Dr. Robert C. Clother, president of the university, accepted the gift from Robert E. MacDougall, assistant trust officer of the Provident Trust Co., Philadelphia, who represented the class.

Smith Names Committees

Fifteen committees to serve the national organization of the American Institute of Banking have been appointed by Harry R. Smith, president of the Institute.

Two August Conferences

The Arkansas Bankers Seminar at the University of Arkansas, Fayetteville, Aug. 7-11, and the Tennessee Bankers Conference at the University of Tennessee, Knoxville, Aug. 14, contribute two more banker study meetings to the summer's list of such gatherings.

July saw banker conferences in North Carolina at Chapel Hill and in Kentucky at Lexington. Also, many California bankers attended the Stanford Business Conference, which devoted several sessions to banking questions.

A.B.A. Study Shows State Bank Earnings Off in '38, Resources Up

\$88,886,000 Net For 8,585 Banks

Is 17% of Gross Operating Earnings

Earnings of state banks doing a commercial banking business were comparatively stable in 1938, although, in line with business conditions, they were generally lower than in 1937, says the fifth annual survey of earnings and expenses made by the State Bank Division, American Bankers Association.

The survey, based on 1938 data from supervisory officials, covers earnings and expenses of 8,585 state banks doing a commercial banking business in 45 states (considering, for convenience, the District of Columbia as a state). Banks so classified are state (commercial) banks, loan and trust companies, and private banks. Figures for Idaho, Louisiana, New Jersey and Texas were not available. Forty-six states and the District contributed to the 1937 survey.

Gross earnings from operations were \$719,052,000 for the year, operating expenses \$520,390,000, net current operating earnings \$198,662,000 before recoveries and chargeoffs.

The percentage of net earnings to gross was 27.6 per cent, compared with 29.4 per cent in 1937, 28.8 per cent in 1936, and 25.7 per cent in 1935.

Net Before Dividends

Net profit after recoveries and chargeoffs, but before dividends, totaled \$88,886,000, or 17 per cent of gross current operating earnings, compared with 19.5 per cent in 1937, 24 per cent in 1936, and 10.3 per cent in 1935.

After dividends of \$50,105,000, net profits were \$38,781,000, or 7.4 per cent of total earnings, compared with 5.8 per cent in 1937, 15.3 per cent in 1936 and 2.3 per cent in 1935.

"The smaller net profits before dividends in 1938," states the study, "may be attributed chiefly to diminished recoveries on loans and investments

Taxes

The average tax paid by state banks in 1938 was \$5.90 for each \$100 of gross income earned during the year, compared with \$5.80 in 1937, \$5.70 in 1936, and \$5.10 in 1935. The highest taxes in 1938, in proportion to gross earnings, were \$10.70 per each \$100 in Vermont, \$10.40 in Rhode Island and \$9.60 in the District of Columbia and Montana, while the lowest taxes were \$3.10 in Alabama and New York, \$3.20 in South Dakota and \$3.30 in Connecticut.

and profits on securities during the year, which is consistent with the subnormal level of business during the first part of 1938 and lower bond prices."

In terms of dollars per \$100 of deposits, net before dividends last year ranged between \$1.70 and \$.36, with 17 states showing net profits of \$1 or over. The average for the reporting states was \$.91 per \$100 of deposits, compared with \$.97 among reporting states in 1937.

Cash Dividends

The average cash dividend declared in 1938, measured in terms of dollars per \$100 of capital stock, was \$.49, as compared with \$.52 per \$100 of capital stock among reporting states in 1937, and \$.47 in 1936, the A.B.A. study shows.

State Bank Research Committee

The State Bank Division's Committee on State Bank Research, under whose auspices the resources-liabilities and earnings-expenses studies are made, is composed of the following:

James H. Penick, executive vice-president, W. B. Worthen Co., Little Rock, chairman; C. J. Kirschner, vice-president, Markle Banking and Trust Co., Hazleton, Pa.; C. M. Malone, president, Guardian Trust Co., Houston; John T. Rohr,

Loans Get Third Of Bank Deposits

But 43.1% Goes Into Investments

"With 43.1 per cent of total deposits of state banks doing a commercial business invested in securities, compared with 33.1 per cent of deposits in loans; with the average yield on securities below the rate received on loans; and with reserves increasing in excess of those required by law, banks have a major problem in maintaining their earnings at normal levels," the study of state bank earnings asserts.

It goes on to say:

"Since the forced increase in reserves has not stimulated commercial borrowing, but has, on the other hand, simply driven more funds into investments, banks generally must look to securities for a considerable portion of their earnings, particularly until such time as greater activity in industry shall bring a greater demand for credit. It is necessary, therefore, that bankers carefully analyze their past investment records and inculcate sound principles and methods in their investment programs, at the same time continuing to meet the needs of their communities in every way consistent with sound credit standards."

Security Income 30.4% of Gross

Loans Account for 45.2% of Total

Income from loans accounted for 45.2 per cent of gross earnings during 1938, while income from securities contributed only 30.4 per cent. The lower proportion of earnings on securities is ascribed principally to the larger holdings of Government bonds, on which a low yield is earned, and a generally lower rate of return on other investments in 1938, says the state bank study.

In terms of dollars for each \$100 of deposits, gross income from loans in 1938 ranged between \$3.98 in Oklahoma and \$.87 in New York, averaging \$2.31, compared with gross income from securities ranging between \$2.51 in New Hampshire and \$.66 in Utah and averaging \$1.16 per \$100 of deposits. Of the 39 states which reported separately their interest and discount on loans and interest and dividends on securities, only Illinois, New Hampshire, New York and Pennsylvania, all having a higher proportion of deposits invested in securities than in loans, showed higher gross earnings from investments than from loans.

The net income on loans and discounts (gross income less gross loss) in 1938, per \$100 of deposits, ranged between \$3.49 and \$.78, averaging \$1.91, compared with net income on investments ranging between \$1.58 and \$.28 and averaging \$.81.

Improvement with regard to the average net income on loans is noted in 1938, being \$.09 higher than the average of \$.82 in 1937.

However, the average net income on securities declined in 1938, being \$.15 lower than in 1937. A higher proportion of net income during 1938 was earned from loans than from investments in all reporting states except Illinois and Pennsylvania.

Deposits and Holdings of "Governments" Rise As Loans Dip in State Commercial Institutions

The combined resources of all state supervised banks in the United States, after a slight decline in 1937, resumed in 1938 the general upward trend which began in 1933 and rose to a level higher than the previous peak of 1936, according to the eighth annual survey of the condition of state banks made by the State Bank Division of the American Bankers Association.

The survey covers 8,104 state (commercial) banks, 924 loan and trust companies, 70 private banks, 332 stock savings banks, and 545 mutual savings banks.

Total resources of the 9,975 state supervised banks amounted to \$38,883,249,000 on Dec. 31, 1938, loans and discounts to \$12,625,952,000, total investments to \$15,485,811,000 (of which 59.1 per cent were in United States Government securities) and combined cash, reserves and due from banks to \$8,570,640,000.

Total deposits of state banks aggregated \$33,616,282,000, and total capital accounts (capital stock, surplus, undivided profits and reserves) amounted to \$4,837,701,000.

The Dec. 31, 1938, tabulation of the 9,098 state banks which conduct a commercial banking business (state commercial banks, loan and trust

companies, and private banks) reveals that the combined resources of these banks totaled \$26,141,891,000, representing a gain of \$1,106,246,000, or 4.4 per cent, over the 1937 year-end, but remaining \$105,798,000 under total resources reported as of Dec. 31, 1936.

Loans and discounts of banks doing a commercial banking business were \$7,394,842,000 on Dec. 31, 1938, a decline of \$498,849,000, or 6.3 per cent.

Their total investment holdings, however, increased \$549,316,000, or 6.1 per cent, to \$9,616,289,000, of which United States Government securities totalled \$5,971,628,000, a gain of \$197,008,000, or 3.4 per cent, and holdings of other securities totaled \$3,644,661,000, a gain of \$352,308,000, or 10.7 per cent.

The largest increase among the assets of state banks doing a commercial business during 1938 was noted in the combined total of cash, reserves and due from banks which, at \$7,846,839,000 on Dec. 31, 1938, was up \$1,175,246,000, or 17.6 per cent, for the year. This combined total exceeded loans and discounts, indicating the extent of idle funds and the unusually low ebb in demand for credit by industry.

Total deposits of the banks amounted to \$22,307,729,000

Service Charges

In 1938 service charges earned by state banks doing a commercial banking business in the 45 states studied were \$38,563,000, or 5.4 per cent of gross current operating earnings, compared with \$40,821,000, or 5.1 per cent of gross earnings in 47 states in 1937.

Per \$100 of demand deposits, the average income received from service charges in 1938 was \$.70, as in 1937, compared with \$.60 in 1936 and \$.40 in 1935.

on Dec. 31, 1938, a growth of \$1,151,550,000, or 5.4 per cent, over deposits at the end of 1937, and also a slight gain over total deposits at the end of the peak year 1936.

"This upswing in deposits," says the study, "reflects chiefly the resumption of Federal borrowing and spending, desterilization of gold, and the influx of funds from Europe."

A large proportion of the extra funds which have flowed into banks necessarily has remained in cash. Demand deposits increased 5.8 per cent during 1938 to \$12,577,159,000, while time deposits of \$6,078,765,000 on December 31, 1938, were 1.3 per cent lower than a year ago.

Banks Pay Less On Time Funds

Interest paid on deposits by state banks, in relation to time deposits, declined in 22 states in 1938, showing a range from \$3 per \$100 of time deposits in Kansas to \$1.10 in New York, with an average of \$1.80 in all reporting states. In 1937 the range of interest paid on deposits, as related to time deposits, was from \$3 to \$1.10 also, but a somewhat higher average rate of \$1.90 was shown in 1937.

"Sectionally," says the study, "it appears that more than the average rate of \$1.80 per \$100 of time deposits was paid during 1938 in the central and southern states. Lower or more equitable rates of \$1.50 or less per \$100 time deposits were disclosed in Colorado, District of Columbia, Illinois, Kentucky, Michigan, Montana, New Hampshire and New York."

"Measured in terms of dollars for each \$100 of total deposits (demand deposits included) the average rate of interest paid on deposits in 1938 amounted to \$.67 per \$100 of total deposits, compared with an average of \$.72 in 1937 and \$.71 in 1936."

The proportion of total gross earnings expended on account of interest on deposits declined in 1938, averaging 14.3 per cent, compared with 1937 when the average proportion of earnings, allocated to interest payments was 15.2 per cent.

CONVENTIONS

American Bankers Association

- Sept. 19-20 17th Regional Trust Conference of the Pacific Coast and Rocky Mountain States, Los Angeles, California
Sept. 25-28 Annual Convention, Olympic Hotel, Seattle, Washington
Oct. 26-27 Tenth Mid-Continent Trust Conference, Chicago, Illinois
Dec. 7-8 1940 Regional Conference, Richmond, Virginia
Jan. 11-12 Regional Conference, Denver, Colorado

State Associations

- Aug. 7-11 Arkansas Bankers Seminar, University of Arkansas, Fayetteville
Aug. 14 Tennessee Bankers Conference, University of Tennessee, Knoxville
Oct. 24-25 Nebraska, Fontenelle Hotel, Omaha

Other Organizations

- Aug. 21- Sept. 1 Pacific Northwest Banking School, University of Washington, Seattle, Washington

- Aug. 28-31 6th Annual Metal Mining Convention and Exposition of the American Mining Congress, Salt Lake City, Utah
Sept. 7-8 Maine Savings Banks Association, Marshall House, York Harbor
Sept. 11-14 Financial Advertisers Association, Royal York Hotel, Toronto, Canada
Sept. 14-15 National Association of Sales Finance Companies, Hotel Pennsylvania, New York City
Sept. 14-16 Massachusetts Savings Banks Association, New Ocean House, Swampscott
Sept. 20-22 National Association of Supervisors of State Banks, Salt Lake City, Utah
Sept. 25-28 Association of Bank Women, Seattle, Washington
Sept. 28-30 National Association of Bank Auditors and Controllers, Seattle, Washington
Oct. 9-11 Morris Plan Bankers Association, Westchester Country Club, Rye, N. Y.
Oct. 9-13 Investment Bankers Association, Del Monte, California
Oct. 23-28 National Association of Real Estate Boards, Los Angeles, California
Oct. 25-27 Savings Banks Association of the State of New York, The Homestead, Hot Springs, Virginia

FIFTIETH
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1889-1939



THE NEW YORK TRUST COMPANY

100 BROADWAY

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CONDENSED STATEMENT OF CONDITION At the close of business, June 30, 1939

ASSETS

Cash on Hand, and in Federal Reserve and Other Banks	\$124,140,984.58
Exchanges, Collections and Other Cash Items	34,323,435.66
United States Government Obligations—Direct and Guaranteed	184,332,390.04
Other Bonds and Securities	15,188,967.31
Loans, Discounts and Bankers' Acceptances	88,296,513.91
Interest Receivable, Accounts Receivable and Other Assets	2,547,692.74
Real Estate Bonds and Mortgages	4,709,596.63
Customers' Liability for Acceptances	2,233,604.54
Equities in Real Estate	880,160.48
Banking Premises—Equity and Leasehold	2,946,660.20
	<hr/>
	\$459,600,006.09

LIABILITIES

Deposits	\$398,574,225.97
Outstanding and Certified Checks	<u>14,017,851.71</u> 412,592,077.68
Dividend Payable July 1, 1939	625,000.00
Accounts Payable and Other Liabilities	2,564,560.66
Acceptances	2,397,982.75
Reserve for Contingencies	1,000,000.00
Capital	12,500,000.00
Surplus	25,000,000.00
Undivided Profits	<u>2,920,385.00</u> 40,420,385.00
	<hr/>
	\$459,600,006.09

Government obligations and other securities amounting to \$5,863,151.45 in the above statement are deposited to secure public and trust deposits and for other purposes required by law.

TRUSTEES

MALCOLM P. ALDRICH <i>New York</i>	FRANCIS B. DAVIS, JR. <i>President</i> <i>United States Rubber Company</i>	ROBERT A. LOVETT <i>Brown Brothers Harriman & Co.</i>
ARTHUR M. ANDERSON <i>J. P. Morgan & Co.</i>	HARRY P. DAVISON <i>J. P. Morgan & Co.</i>	HOWARD W. MAXWELL <i>New York</i>
MORTIMER N. BUCKNER <i>Chairman of the Board</i>	RUSSELL H. DUNHAM <i>Chairman of the Board</i> <i>Hercules Powder Company</i>	HARRY T. PETERS <i>New York</i>
JAMES C. COLGATE <i>Jas. B. Colgate & Co.</i>	SAMUEL H. FISHER <i>Litchfield, Conn.</i>	DEAN SAGE <i>Sage, Gray, Todd & Sims</i>
ALFRED A. COOK <i>Cook, Nathan, Lehman & Greenman</i>	ARTEMUS L. GATES <i>President</i>	LOUIS STEWART, SR. <i>New York</i>
WILLIAM F. CUTLER <i>Vice-President</i> <i>American Brake Shoe & Fdy. Co.</i>	WILLIAM HALE HARKNESS <i>New York</i>	VANDERBILT WEBB <i>Curtis, Belknap & Webb</i>
	B. BREWSTER JENNINGS <i>Socony-Vacuum Oil Co., Inc.</i>	MEDLEY G. B. WHELPLEY <i>Guggenheim Bros.</i>

Member of the Federal Deposit Insurance Corporation

A Shelf of New Books

Bank Portfolios

THE proceedings of the bond portfolio conferences for banks, held this Spring by the New York State Bankers Association, have been put into a book, available at the association's headquarters, 33 Liberty Street, New York, at \$2. The material includes a discussion of the relation of interest paid on time deposits to the investment problem; statement of principles of investing for a commercial bank; records and statistics of a bond portfolio; and how to analyze different types of bonds. There is also an analysis of the money and bond markets. The book is designed to provide a set of principles and a procedure method which commercial bank directors and officers can use in dealing with the bond investment problem.

Common Trust Funds

From the Trust Division of the American Bankers Association comes *Common Trust Funds: A Handbook on Their Purposes, Establishment, and Operation* (\$2). Representing five years of work by the Division's Special Committee on Common Trust Funds, this book describes the points a trust institution should consider in deciding whether to establish such a fund, and the methods by which the plan can be set up and operated.

Successive chapters discuss factors to be examined before a fund is established, type of fund, drafting of the plan, installation and operation, and tax phases. Appendices provide a model plan of discretionary trust fund, a form of plan for the so-called \$1,200 fund, a bibliography, Reserve Regulation F covering operation of common trust funds, and the section of the Reserve Act of 1938 regarding their taxability.

The book realizes the hope expressed in the preface by Samuel C. Waugh, Division President, that it "will serve as a guide to all trust institutions contemplating the installation of a common trust fund and that it will give a better understanding of the major problems involved."

Personnel

The human element in the bank was the material selected by the research committee of the Indiana Bankers Association for its 1939 study, results of which are published by the association under the title *Report of the Research Committee* (Indianapolis, 75 cents). Part I is a detailed study of personnel management in banks: job analysis, selection of new employees, their education, training, promotion, transfer, dismissal, salaries, working hours and conditions, etc. Part II is a survey of personnel in Indiana banks. Appendices provide additional information, rounding out a practical and useful study in the important sphere of human relations within the bank. The committee chairman is Thomas G. Wilson, president of the Marion National Bank. Incidentally, the 1939 report completes a trilogy by the committee. The first unit was a recent history of Indiana banks and banking trends; the second studied the problem of bank earnings.

Financial Yearbook

Paul Einzig's *World Finance 1938-1939* (Macmillan, New York, \$3) stresses the political factor in its interpretation of financial developments during the year, justifying that approach on the ground that international politics was the dominating influence. This comprehensive, readable review covers such occurrences as dollar scares, the franc crisis,

rearmament finance, the Czechoslovakian crisis and its economic consequences, and recovery in France. Looking ahead, Dr. Einzig says that although it seems uncertain whether in the next year "the rearmament factor will be sufficient to counteract the adverse psychological effect of war scares, it may be considered certain that, taking a long view, we may expect inflation to produce its inevitable effect on prices and trade."

Industrial Systems

Industrial Political Economy by Edward Henry Hempel (Pitman Publishing Corp., New York and Chicago, \$3.50) is an exposition of methods and policies that have been tried in industry from 1,000 B.C. to the eve of the present day. Believing that "a return to fundamental knowledge and information" is necessary if we are to know how to build a successful system, Professor Hempel explains, first, the early systems that were used to further industry: individualism in Greece, classic totalitarianism in Rome, the democratic system of the Dutch, and the self-rule methods of the guilds. Then he discusses industrial development in France and England to show the increasing complexities of economic problems and the various philosophies that have been applied to their attempted solution. The author is at Columbia University.

Private Capitalism

Another professor, N. S. B. Gras of the Graduate School of Business Administration at Harvard, also contributes a "background book" to current reading lists. His *Business and Capitalism* (F. S. Crofts, New York, \$3.50), subtitled "An Introduction to Business History", studies types of private capitalism: petty, mercantile, industrial, financial, and national, the last named being exemplified by Fascism, Nazism and the New Deal. It remains to be seen, says Professor Gras, whether national capitalism "is but a brief transition in the affairs of men." The fate of financial capitalism is obscure, he says, although it is plausible to believe that "when the existing national capitalistic effort has made sufficient mistakes, financial capitalism will have an opportunity to function at least once again in a more restricted area than before. This may coincide with the beginning of the next secular trend which will be upward and possibly will come in the early 1950's."

Miscellaneous

The Trust Division of the American Bankers Association announces the *1939 Trust Directory* (\$2), the only compilation of the trust institutions and the trust men and women of the United States.

The bank management commission of the Kansas Bankers Association prints the interesting report of its survey of operating results of 371 Kansas banks for the year 1938. Most of the reporting banks were those which also provided information for the similar 1937 study, thus providing an accurate comparative picture. An increased percentage of total income last year came from loans.

The Truth About Savings Bank Life Insurance by S. Nicoll Schwartz (John Street Publishing Company, New York, 35 cents) is a pamphlet presenting the case against the subject. The author, with a background of 25 years of general insurance activity, is "convinced that the principle of savings bank life insurance is faulty."

The Legal Answer Page

Accommodation Maker—Consideration

WE have been informed on several occasions that it is the practice of some of the members of our Association in paying over the proceeds of a personal loan bearing the signature of more than one person to give cashier's checks payable jointly to all makers. Such banks have reported that this practice is disliked by the borrower. They, therefore, inquire whether such a procedure is necessary in order to forestall or defeat a plea of lack of consideration by these co-makers who are accommodation makers.

The Uniform Negotiable Instruments Law defines an accommodation party as follows:

"An accommodation party is one who has signed the instrument as maker, drawer, acceptor or indorser, without receiving value therefor, and for the purpose of lending his name to some other person."

It further provides for the liability of such an accommodation party:

"Such a person is liable on the instrument to a holder for value, notwithstanding such holder at the time of taking the instrument knew him to be only an accommodation party."

Under the definition contained in Section 190 the term "Holder" includes "the payee . . . of a . . . note, who is in possession of it".

Even though the accommodation maker is named as joint payee of the check, it is not intended that he should and he does not actually receive the consideration passing from or the value given by the bank. However, the "consideration received by the accommodated party is sufficient to bind the accommodation party" (11 Corpus Juris Secundum 294), or, as stated in 7 American Jurisprudence at page 947, a "co-maker is bound on his undertaking by force of the consideration moving from the payee to the maker. . . ."

Taxation—Reorganized Banks

UNDER section 818 of the Revenue Act of 1938 banks and trust companies which had been reorganized by the depositors waiving a part of their deposits and accepting in lieu thereof a lien against earnings or a lien upon segregated assets, were relieved of the payment of Federal taxes which would diminish the assets available for the payment of the waiving depositors' claims and which were necessary for the full payment thereof. However, the Bureau of Internal Revenue in its Regulations interpreted this section as merely suspending the collection of the tax until the waiving depositors had been paid in full, at which time all taxes accrued during the period of suspension could be reassessed against the bank, together with 6 per cent interest.

In the Revenue Bill of 1939 an amendment offered by Senator Brown was adopted which changes the language of this section to make it clear that reassessment of the taxes may only be made against segregated or transferred assets remaining after payment of the depositors in full and not against the bank. In the words of Senator Brown the effect of the amendment is:

"it prevents the Bureau of Internal Revenue from assessing

taxes against a reorganized bank for income earned by a trust out of which the bank was in part formed when there were not sufficient assets with earnings to pay the depositors in full, and confines the income tax to the earnings on the segregated assets which are to be taxed if the depositors are paid in full out of such assets and earnings. It is our intent to permit taxes only against such assets and against no other source."

Life Insurance As Collateral—Federal Estate Tax

AN interesting tax problem has arisen in connection with the assignment of life insurance policies as collateral for loans. (A proposed standard form of assignment is presented on page 28 of this issue of BANKING.) The Federal estate tax law grants an exemption of \$40,000 of the proceeds of life insurance receivable by all beneficiaries other than the estate. This exemption is in addition to the general exemption granted to the estate. The regulations of the Bureau of Internal Revenue provide that "If the decedent took out insurance in favor of another person or corporation as collateral security for a loan or other accommodation, the insurance is considered to be receivable for the benefit of the estate" (Art. 26, Regulations 80). The question then arises when a policy payable to a named beneficiary is assigned as collateral for a loan, whether this is within the purview of the above quoted regulation and the total proceeds subject to tax instead of \$40,000 thereof being tax free. Opinion was given that the regulation could not be so broadened for to do so would bring it into conflict with the intent of Congress and consequently render it invalid.

Checks Lost By Bank

WHAT is the collecting bank's liability where checks deposited with it are lost before payment has been made thereon? Must the depositor establish the names of the makers so that it can be determined whether or not the checks would have been paid upon presentation?

In Stark v. Public National Bank of New York, 206 N.Y.S. 8, both of these questions were before the court. The court held that where the collecting agent has lost the instrument through neglect and hence it is not duly presented or paid, his liability may be greater than if he merely neglected to present it. For a mere failure to present, there may be no damage if the holder has not lost anything thereby. But, when an instrument is lost, the holder must be deprived of something. The holder is not only deprived of the evidence which a check would furnish but if he does not know the name of the maker, he cannot make his claim against the maker. It is true that the loss of the check did not legally relieve the maker from liability to the holder, but because the latter does not know the maker's name, that is the practical effect of it.

Where the depositor, because of loss of the check has lost his claim against the maker, the amount of his damages is the face amount of the instrument. It is not necessary that the depositor establish the names of the makers so that it can be determined whether the parties liable on the instrument were solvent when presentation should have been made.

METHODS and IDEAS

This department of BANKING is conducted by our Methods and Ideas reporter, John J. McCann

Bank-by-Telephone

IN HARMONY WITH the present trend of retailing bank credit on a department store basis, the Personal Loan & Savings Bank (Chicago) now promotes loan "orders" by telephone. Customers of established credit are invited to arrange loans by phoning the bank's private wire department—a special unit of 20 trunk lines in the personal loan department. A loan officer discusses all details, fills out the application and makes a definite appointment for completing the loan. The customer calls in person later, signs the application and receives the loan within a few minutes. This service plays up three excellent selling points—privacy, convenience, time-saving. All current promotion carries the slogan—"Want a loan? Telephone!" Large newspaper ads contain a guide coupon listing types of loans available and essential facts prospects must be prepared to answer when phoning for the loan. A host of new patrons are being won over daily to this unique merchandising plan.

Chek-Rekord

FIRST NATIONAL BANK AND TRUST COMPANY (Oklahoma City) reports half its customers won over to a new idea in check holders within a month. This copyrighted holder is simply a serviceable envelope containing a gummed pad of 10 checks and a separate "Rekord" sheet which provides columns for check number, date, payee, amount, deposit and balance. There is also a column headed D.I.T. which serves as a memo to deduct income tax on such checks next March. This sheet is ruled on both sides for recording data on 40 checks.

The new holders were inaugurated after a survey which showed that a large number of customers carry loose checks in preference to bulky pads or folders. Customers were introduced to the idea by specimens enclosed with monthly statements. An explanatory slip noted these advantages from the customer viewpoint: (1) Easier to carry in pocket or purse; (2) provides flat checks; (3) convenient, compact record in place of stubs; (4) income tax deduction record.



CHEK-REKORD (Column 1)

For the bank, it is said to have these benefits: (1) Lower printing and replacement costs; (2) fewer accidental overdrafts due to the fact that the "Rekord" sheet is always before the customer; (3) envelopes and Rekord sheets carry effective advertising copy.

Early customer reactions indicate that men find the new holders especially desirable for lightening pocket contents. Women, too, like the light load for the purse.

Credit Card

AN ALL-PURPOSE CREDIT CARD is being issued by personal finance companies as an additional part of their cash-credit for consumer service, according to a recent announcement by Charles H. Watts, president of Beneficial Industrial Loan Corporation.

The idea of the card is to allow individuals of average income to establish credit before they need to borrow money. This is a significant movement to put consumer credit on a stable cash basis and eliminate the present hit-or-miss practices of credit granting which are bad for the public, producer and retailer alike.

When the card is issued, the manager of the personal finance company at which the application is made will establish the credit rating of the applicant, and the card holder will be thus certi-

fied for a fixed sum which he may use as credit qualification at any office in the system. This service is expected to appeal to business men and others who travel extensively, to families on vacation, and many others who are apt to find themselves stranded for funds away from home. The cards are protected against loss or forgery, and possession of a card will certify the bearer as a good cash-credit risk up to the amount stipulated.

Mr. Watts says: "We believe the card places personal borrowing on a dignified business basis and renders a service which is important to the entire business system, as well as to the borrower, because it enables the individual to be forehanded in his anticipation of possible credit needs and removes the element of pressure when he applies for cash credit in the event of emergency."

Auto Loans

IN THE BELIEF THAT auto financing and insurance are two separate entities, the Merchandise National Bank of Chicago recently announced a new finance plan under which insurance is not compulsory. This marks the first time that the two services have been completely divorced in an auto finance plan, according to George B. Everitt, chairman of the bank's board.

Insurance, at least to the extent of

fire and theft coverage, has been a requirement of all auto financing, even when not sold as a unit by the finance source. In most cases, collision insurance has also been a requirement and usually the total cost of the compulsory insurance exceeds the finance charge on the unpaid balance. Hence, the Merchandise Bank's new plan recommends fire and theft insurance but does not require it. This results in 40 per cent minimum savings on the total compulsory cost of an average one-third down payment deal, the maximum savings being in excess of 60 per cent. The total finance cost is \$5 per \$100 for 12 months, under the new plan.

Though, admittedly, the bank recognizes the benefits of insurance protection, experience has proved such losses negligible. The bank, however, protects its own interest by insuring the unpaid portion of the borrower's obligation, this insurance being payable to the bank in the event of loss. The borrower is not compelled to carry any insurance, but may do so if he chooses to pay for the extra protection. The key to the plan is an agreement whereby the borrower agrees to reduce his indebtedness by the amount involved in the event of damage by fire, theft or collision. This plan has been passed by the Illinois Department of Insurance.

Almanac

THE OLD "FARMERS' ALMANAC," with unchanged format these many years, still takes its place on the bookshelves of many rural homes. Though its calculations may fall short of the precision by which modern science improves farm production, readership holds true

and fast. The Bank of Smithtown (Smithtown Branch, L.I., N.Y.) finds the Almanac an effective ad medium. Name imprint and rear-cover page advertisement become a year-round reminder for interested farmers. Quantities are displayed in special holders in the bank lobby, and directors distribute copies to their friends and customers.

Savings Bank Life

"OVER THE COUNTER"—a new booklet issued by the Savings Bank Life Insurance Council of Massachusetts—presents a summary of the history and special features of this form of invest-

ment. It is distributed by 150 issuing and agency banks blanketing the state, and via dramatized "spot" radio announcements sponsored by the Council through key station outlets.

The booklet is designed to aid prospects in analyzing insurance needs and in making a prudent choice of policies and programs. This is accomplished by outlining the most beneficial arrangements in given situations such as: wage-earner with family or close dependents, housewife, child, persons without family or dependents. A separate section fully describes each policy with rate tables and other data. Inasmuch as this



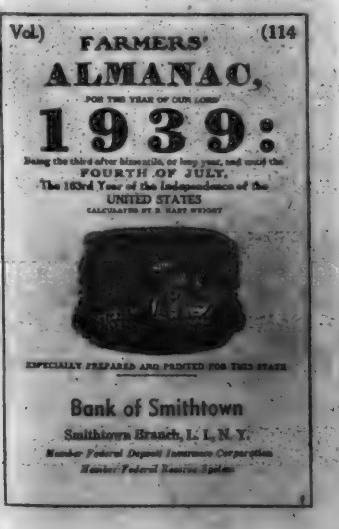
LIABILITY REBOUNDS!

Most property owners and contractors know they may be liable for bodily injuries or damage to property of others occurring on their premises or by reason of their operations.

What may not be realized is that liability *supposedly* delegated or "passed off" to sub-contractors doing work that is sublet, often rebounds like a boomerang upon the unsuspecting owner or contractor.

Many court decisions have held owner or contractor liable *even though not actively negligent*. They, as well as sub-contractor, may be named defendants in suits involving claims for bodily injury or property damage.

The great single safeguard against loss resulting from such suits is OWNERS' OR CONTRACTORS' PROTECTIVE LIABILITY AND PROPERTY DAMAGE INSURANCE. This protection is written in policy form by both American Surety and New York Casualty Companies.



AMERICAN SURETY
COMPANY
NEW YORK CASUALTY
COMPANY

HOME OFFICES: NEW YORK

Both Companies write Fidelity, Forgery and Surety Bonds and Casualty Insurance

service is restricted to over-the-counter sales, advertising bears a heavy load in that it must do much of the preliminary selling.

Parking Problem

ON PREVIOUS OCCASIONS this column has given attention to methods used by banks in solving parking problems. Now, from Bayside National Bank (Bayside, Queens, New York City) comes a thought on how to meet the problem before it gets out-of-hand. Over the signature of J. Wilson Dayton, president, the bank addressed an open letter to depositors requesting their

cooperation in not abusing parking privileges on the main boulevard. The letter presented a reasonable argument on behalf of merchants, shoppers and depositors who now enjoy unrestricted parking. The abuse, it warned in a friendly spirit, would lead to a strict enforcement of a short time limit by the police department. The letter was enclosed with all monthly statements.

Business Meter

"THE BUSINESS METER," title of a new folder circulated by a number of banks, takes a new approach in presenting the picture of business activity. It is

an eight page, fan-fold affair, with a series of clock dial illustrations in alternate reverse-plate treatment. Dials or meters indicate latest week figures, and those of same period a year ago, for these classifications: bank clearings, department store sales, carloadings, business activity index, factory employment, business failures; steel, automobile, oil, electrical and lumber production; construction (homes and general) and cotton consumption. Each dial gives the source of facts.

Below, the "Business Meter"



NATIONAL BANK OF DETROIT

STATEMENT OF CONDITION, JUNE 30, 1939

RESOURCES

Cash on Hand and Due from Other Banks	\$188,001,405.58
United States Government Obligations, direct and/or fully guaranteed	192,300,413.98
Other Securities	11,317,660.53
Stock in Federal Reserve Bank	750,000.00
Loans:	
Loans and Discounts	\$ 56,477,375.05
Real Estate Mortgages	10,079,094.63
Overdrafts	10,258.89
Real Estate (24 Branch Bank Buildings)	66,566,728.57
Accrued Income Receivable—Net	771,841.46
Prepaid Expense	1,104,087.44
Customers' Liability Account of Acceptances and Letters of Credit	87,147.18
TOTAL RESOURCES	<u>1,695,529.70</u> <u>\$462,594,814.44</u>

LIABILITIES

Deposits:	
Commercial, Bank and Savings	\$384,984,506.99
U. S. Government	18,607,225.43
Treasurer, State of Michigan	7,956,313.20
Other Public Deposits	16,395,735.46
Capital Account:	
Preferred Stock (380,000 Shares)	9,500,000.00
Common Stock (750,000 Shares)	7,500,000.00
Surplus	8,000,000.00
Undivided Profits	5,974,796.57
Reserve for Retirement of Preferred Stock	30,974,796.57
Reserve for Common Stock Dividend No. 10 payable August 1, 1939	250,000.00
Reserves	375,000.00
Our Liability Account of Acceptances and Letters of Credit	1,355,707.09
TOTAL LIABILITIES	<u>1,695,529.70</u> <u>\$462,594,814.44</u>

United States Government securities carried at \$38,905,000.00 in the foregoing statement are pledged to secure public and trust deposits and for other purposes required by law.

Member Federal Deposit Insurance Corporation

Crop Reports

THE BANK OF MONTREAL renders a distinctive service to Canada's vast agriculture through the issuance of special reports each year. This information pertaining to crop news and

TENNESSEE BANKER

L. R. Driver, executive vice-president of the First National Bank of Bristol, is the new president of the Tennessee Bankers Association



related subjects is compiled at the head office in Montreal, from telegraphic dispatches based on first-hand observations by hundreds of branch managers from Halifax to Victoria. The reports when collated and briefed are then sent over special wires to various centers, from which they are mailed free to all who desire them. Requests for regular issues are made to the head office and from there instructions are relayed to the nearest issuing bank. Current season reports are now available.

On the Farm

WHILE MANY FARM ISSUES await administrative untangling, the old silent partner back in the countryside labors away at the roots of the issues. In a big way the local bank carries on a crusade for better farm income, not so much for its own profit—as some factions of the public believe—as out of inherent loyalty to the community it serves. Such programs range from hiring expert agriculturalists down to neighborly backfence advice.

In Columbus, Nebraska, for example, Central National Bank aligns its resources to promote farm and livestock operations on a "Make A Living Each Month" basis. In a series of cordial monthly letters the bank reports new developments, and rallies interest in a broader, more diversified program of activities. It offers help through small loans for 4-H projects, poultry, livestock and crops. And it states quite frankly that although such loans are not directly profitable, the bank is willing to break even to help conditions over

the hurdle. These letters also invite a discussion of service suggestions of any kind that might further extend the bank's helpfulness. Attitudes and efforts like this account for the improvement of farm conditions on many fronts.

Used Home Drive

THE PROBLEM OF RIDING the books of "used" real estate may find an effective solution in the unique drive currently sponsored by several Detroit banks. These institutions have approached the task somewhat along lines followed by automobile dealers who

must move used cars in periods of new car sales activity. The technique of Ford and General Motors has its basic appeal in the offering of "certified" values. Similarly, all properties cooperatively advertised by the group in special real estate sections of Detroit newspapers and by direct-mail to agents and brokers, carries the trademark "Plus Value Homes". As a tie-in this same trademark identifies all individual ads in classified sections. Members of the group include: the receivership of the First National Bank, Detroit Trust Company, Detroit Bank, and several insurance companies.



The First National Bank of Chicago

Statement of Condition June 30, 1939

ASSETS

Cash and Due from Banks,	\$425,955,148.44
United States Obligations—Direct and fully Guaranteed,	
Unpledged,	\$281,117,545.99
Pledged—To Secure Public Deposits,	29,431,286.28
To Secure Trust Deposits,	29,247,808.56
Under Trust Act of Illinois,	<u>550,000.00</u> 340,346,640.83
Other Bonds and Securities,	75,611,514.99
Loans and Discounts,	229,004,985.44
Real Estate (Bank Building),	6,048,828.02
Other Real Estate,	1,281,546.75
Federal Reserve Bank Stock,	1,875,000.00
Customers' Liability Account of Acceptances,	1,589,016.10
Interest Earned, not Collected,	2,812,596.13
Other Assets,	<u>465,604.62</u>
	\$1,084,990,881.32

LIABILITIES

Capital Stock—Common,	\$30,000,000.00
Surplus Fund,	32,500,000.00
Other Undivided Profits,	4,766,525.13
Discount Collected but not Earned,	622,289.35
Dividends Declared, but Unpaid,	600,000.00
Reserve for Taxes, etc.,	1,873,582.37
Liability Account of Acceptances,	1,760,133.00
Time Deposits,	\$177,777,325.54
Demand Deposits,	740,122,598.07
Deposits of Public Funds,	<u>94,965,451.50</u> 1,012,865,375.11
Liabilities other than those above stated,	<u>2,976.36</u>
	\$1,084,990,881.32

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

20TH ANNIVERSARY

Edward H. Thomson recently observed his 20th anniversary as president of the Federal Land Bank of Springfield, Mass.



Anniversary Theme

WITH ALL DUE RESPECT for the many interesting themes that serve as tie-in copy for anniversary celebrations, the one recently built around personnel by the First National Bank (Chester, Pennsylvania) takes a long lead in public relations value. This series appeared daily except Sunday on a six weeks' schedule. Each ad presented a member of the bank staff from president and directors down the line. No particular order of rank was observed. Each ad carried a picture of the employee and a brief record of his connection with the bank. To round out the

story of age and stability of the bank, advertisements portraying early history, founders, former bank buildings, etc., were run intermittently. The campaign closed with a double-page spread reviewing material presented in the 36 insertions.

Although the theme of honoring and identifying personnel is not new, its use seems to be somewhat restricted. It has, however, many angles worth considering. It gives the working force an entity and an importance that produces new feeling. It discourages that all too frequent lament of being a mere cog-in-the-wheel. Moreover, it projects in

some solid form the personalities which are fundamental in the relations of bank and community.

Layout

ATLANTIC NATIONAL BANK (Jacksonville, Florida) presents an interesting new treatment in newspaper layout. Current four-column by 10 inch advertisements are divided by rules with one inch margins on the left side. Illustration, text and signature are set in the usual manner in the right section. The left margin carries supplementary facts and information related to the main theme and text. For example, an ad featuring National Foreign Trade Week carried current foreign exchange quotations in the margin. Ads designed around trust appeals list department personnel in the margin. For safe deposit appeals, the margin carries a suggested list of items which may be included in this service.

Employee Relations

"HAPPY BANK FAMILY" is no idle boast at the Del Rio (Texas) National Bank, for there each employee owns capital stock of the bank. The plan was evolved by Cashier J. A. Walker. The staff feels it has something more than a job at stake; each member is now part of the institution. Mr. Walker took a block of his own stock and made 10 shares available to junior officers and five shares each to other employees. Payment was arranged over a two-year period at a very low interest

ONE HUNDRED YEARS OF SERVICE: 1839—1939

Guaranty Trust Company of New York

140 Broadway

Fifth Ave. at 44th St.

LONDON

PARIS

BRUSSELS

LIVERPOOL

Madison Ave. at 60th St.

HAVRE

ANTWERP

Condensed Statement of Condition, June 30, 1939

RESOURCES

Cash on Hand, in Federal Reserve Bank, and Due from Banks and Bankers	\$ 1,013,232,650.33
U. S. Government Obligations	636,527,767.39
Public Securities	48,621,910.23
Stock of the Federal Reserve Bank	7,800,000.00
Other Securities	22,032,797.41
Loans and Bills Purchased	437,486,745.57
Credits Granted on Acceptances	19,217,893.74
Bullion Abroad and in Transit	27,170.00
Accrued Interest and Accounts Receivable	14,121,358.53
Real Estate Bonds and Mortgages	2,861,643.71
	<hr/>
	2,201,929,936.91
Bank Buildings	11,927,391.69
Other Real Estate	1,310,806.41
	<hr/>
Total Resources	\$2,215,168,135.01

LIABILITIES

Deposits	\$1,863,615,074.25
Outstanding Checks	34,420,227.56
	<hr/>
Acceptances	\$30,223,803.14
Less: Own Acceptances Held for Investment	11,005,909.40
	<hr/>
Liability as Endorser on Acceptances and Foreign Bills	19,217,893.74
Dividend Payable July 1, 1939	1,916,894.00
Items in Transit with Foreign Branches	2,700,000.00
Miscellaneous Accounts Payable, Accrued Interest, Taxes, etc.	116,337.53
	<hr/>
Capital	20,224,107.04
Surplus Fund	1,942,210,534.12
Undivided Profits	12,957,600.89
	<hr/>
Total Capital Funds	272,957,600.89
	<hr/>
Total Liabilities	\$2,215,168,135.01

Securities carried at \$17,949,694.92 in the above Statement are pledged to qualify for fiduciary powers, to secure public monies as required by law, and for other purposes.

Member Federal Deposit Insurance Corporation

RHODE ISLAND

Frank J. Ryan, vice-president of The National Bank of Commerce and Trust Company, Providence, is president of the Rhode Island Bankers Association



rate. The purchase plan was entirely an open matter, yet as soon as it was offered the entire staff subscribed.

Contest Follow-ups

THIS COLUMN HAS NOTED an increasing use of contest promotions by banks. Checking on the follow-up methods employed, it is found that there is evidence of clever use of the material gathered. The Pittsfield (Massachusetts) Co-operative Bank, for example, currently runs a series of ads based upon the text of letters submitted in a recent anniversary contest. Key-note sentences, excerpted from letters, are used as ad headings with part of the actual letter reproduced in the background. The series is based on the central theme—Planning Ahead. Mississippi Valley Trust Company (St. Louis, Missouri) also demonstrates an effective treatment of material contributed to a recent contest of "Unusual stories behind things kept in safe deposit boxes." New copy slants are derived from these interesting personal experiences. Each ad displays a summary of safe deposit benefits, stressing especially the main point developed in the text. Both campaigns are typical of the smart merchandising sense with which such contests should close, if they are to have any ultimate new business value.

New England for Fair

VISITORS IN THE NEW ENGLAND section of the Court of States, New York World's Fair, receive an impressive

folder describing the beauties and attractions of the country's number 1 vacation playground. This folder bears the signature of the State Street Trust Company, Boston, and was provided in cooperation with the New England Council. The rear cover when folded serves as a mailing form with space for personal message. The hope is that visitors will mail them to relatives and friends back home to help sell the idea of sojourning in New England before or after their visit to the fair.

Educational

"THE DYNAMO," MONTHLY EMPLOYEE JOURNAL issued by the Mer-

chants National Bank (Mobile, Alabama) suggests an educational program that may be used without detail or cost. Through the courtesy of *Time*, the weekly newsmagazine, Merchants National reprints advance releases of the popular current affairs tests issued in the monthly question bulletins and semi-annually in pamphlet form. This material stimulates employee interest in keeping up with national and world affairs—an objective well within the course of improved customer relations, for what the public expects of bank personnel certainly extends beyond daily routine. On several occasions the bank has run contests based on this

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO

Statement of Condition, June 30, 1939

RESOURCES

Cash and Due from Banks	\$ 500,949,502.88
United States Government Obligations,	
Direct and Fully Guaranteed	610,128,779.78
Other Bonds and Securities	56,817,118.13
Loans and Discounts	159,634,235.64
Stock in Federal Reserve Bank	2,850,000.00
Customers' Liability on Acceptances	562,558.17
Income Accrued but Not Collected	2,762,900.91
Banking House	12,750,000.00
Real Estate Owned other than Banking House	3,638,480.18
	<hr/>
	\$1,350,093,575.69

LIABILITIES

Deposits	\$1,212,371,248.29
Acceptances	562,571.65
Reserve for Taxes, Interest and Expenses	5,059,203.87
Reserve for Contingencies	14,648,119.25
Income Collected but Not Earned	202,144.79
Preferred Stock	25,000,000.00
Common Stock	50,000,000.00
Surplus	20,000,000.00
Undivided Profits	22,250,287.84
	<hr/>
	\$1,350,093,575.69

United States Government obligations and other securities carried at \$124,976,609.84 are pledged to secure public and trust deposits and for other purposes as required or permitted by law.

Member Federal Deposit Insurance Corporation

material and offered awards for highest grades. Questions were published in one issue and a definite time limit set for submitting answers. The following issue of the publication posted grades and correct answers.

Time has informed this column that it will gladly supply any quantity of test bulletins and pamphlets through its club bureau without cost to financial institutions, provided 25 or more individuals participate. Banks interested may write specimens and details. Address Miss Florence A. Williams, *Time & Life* Building, Rockefeller Center, New York City.

Budget Lectures

FARSIGHTED IS THE ATTITUDE taken by the First National Bank of Louisville in conducting its personal loan service. This bank holds to the premise that supplying credit needs with loans is only half the job. Equally important is the need of guiding customers and prospects in the intelligent use of credit to the end that their basic problem—family and household money management—may be completely solved. Hence the bank recently invited local housewives to a series of budget lectures by Ethel Laney, popular budget editor of Louisville's *Courier Journal*. Talks were

scheduled in the bank daily at 9, 11 and 12 o'clock.

Poster announcements were distributed to public libraries, the University of Louisville, and various women's organizations. Lobby displays were set up in the bank's nine offices. In newspaper ads and circulars patrons were requested to notify the bank of the lectures they planned to attend; later free attendance cards were mailed them. Subjects were: "Your Credit", "Vacation Budget", "Planning Wardrobes", "Advancement Spending", "Savings", "How to Borrow", "Children's Allowances", "Owning Your Home", "Stretching the Dollar", "Unforeseen Expenses", "Financial Independence" and "Keeping the Budget".

All lectures were well attended except the 9 A.M. schedules, this hour being too early to attract the average housewife. Each guest received a special budget book entitled "Consider Your Pocketbook" which carried the bank's name and loan advertisement. The whole program was widely and favorably publicized, and though a long-range view must be taken on new business, good-will in this case was paramount.

Borrower's Guide

A SMART IDEA finds graphic expression in a recent issue of the *Journal*, monthly house organ of the Union & New Haven (Conn.) Trust Company. This issue editorializes on the change of lending conditions, emphasizing the fact that the old order is reversed—the



Main Banking Floor, World's Fair Office, Manufacturers Trust Company

AN INVITATION TO VISIT THE BANK OF TOMORROW

BANKERS who visit the New York World's Fair are cordially invited to stop at the World's Fair Office of Manufacturers Trust Company, the Bank of Tomorrow. Here in the very heart of the Fair you will find a beautiful bank—modern, spacious, attractively furnished, air conditioned—ready to serve you in every way.

MANUFACTURERS TRUST COMPANY

World's Fair Office: Constitution Mall at Washington Square,
World's Fair Grounds

PRINCIPAL OFFICE: 55 Broad Street, New York
68 COMPLETE BANKING OFFICES IN GREATER NEW YORK

Member Federal Deposit Insurance Corporation

CONSUMER CREDIT

Kenton R. Cravens, vice-president, Cleveland Trust Company, was made president of the recently organized Bankers Association for Consumer Credit



lender is now the servant of the borrower. Supplementing this bit of selling is a two-page chart of the various classes of credit offered by the bank, columnized to cover these essential points; limit of amount; terms; purpose; whom to see; loan procedure; security required; decision time; and interest rate. The chart thus answers the usual questions on loan procedure for each separate class of borrower. The thought expressed here lends itself to many adaptations.

Milk Month

BELOW, a display in the Manufacturers National Bank, Troy, New York, in connection with "Milk Month".



Multiple Taxation

IN LATE SPRING, the United States Supreme Court completely revised a long-established principle of law and held, in effect, that intangible property may be subject to double taxation.

GEORGIA

The newly elected president of the Georgia Bankers Association is Herbert Huckabee, vice-president and cashier of the Bank of Fort Valley



August 1939

This ruling puts a new light on trust services and adds something more to the selling arguments for trusteeship. Losing no time in telling prospects of the possible influence of the ruling on their inheritance taxes, The Trust Company of Georgia reprinted the complete text of the two cases involved in the action. The pamphlet contains a brief introduction defining background and portents of the law. Footnotes and references are carried in the usual manner at the bottom of each page devoted to case transcripts. Distribution was made to special customers and prospect lists.

Public Service

NEW YORK STATE's new cigarette tax law, effective July 1, opened a new avenue for public service for key banks throughout the state. Separate units were set apart in many of these institutions for the sale of tax stamps to wholesalers who are required to affix them on each packet of cigarettes. This service is performed without compensation. Banks in the group include: Underwriters Trust Company, Bronx; State Bank of Albany; First Citizens Bank & Trust, Utica; Lincoln National Bank & Trust, Syracuse; Genesee Valley Trust Company, Rochester;



They Can Be Deadly Weapons!

The forger's nimble fingers can make of an innocent pen a ruinous instrument, capable of inflicting grave financial loss.

Against such liabilities you can protect your bank — with a *Standard Accident* forgery bond. Make sure, too, that every business to whom you loan is likewise fortified.

Standard of Detroit also insures against loss through burglary, robbery, and holdup; embezzlement; automobile accident; and similar hazards. The local representative of this experienced casualty insurance and bonding company can advise you.

STANDARD ACCIDENT INSURANCE COMPANY

Standard Service Satisfies . . . Since 1884

Manufacturers and Traders Trust Company, Buffalo and First National Bank, Birmingham.

FHA

To STIMULATE FHA LOANS, the Security First National Bank of Los Angeles enlisted the aid of employees through a new business contest, appointing each as a solicitor of insured mortgage business. A specially designed bronze button is awarded to each employee who makes a contact resulting in a completed application for FHA mortgage insurance; silver button

for employee contacts resulting in two new loans; gold for those producing a volume of five or more. In addition, one extra day vacation is granted for each completed loan—maximum six days. The plan has been received with enthusiasm by every member of the staff and early reports indicate an upturn for new loan volume.

Shareholders

FROM THE TYPICAL LAYMEN'S viewpoint, stockholders in a bank represent a high stratum of monied interest. This impression is borne out in several sur-



The lobby display board described on page 78

vey. Searching for the answer leads to the fact that rarely, if ever, does a bank make public listing of its shareholders of preferred or common stock. Yet, in so doing, there is an opportunity of correcting a false impression which in many ways may bear upon public attitude. An interesting case example appears in a recent advertisement of the American National Bank of Kalamazoo titled "Know the Shareholders". The opening text quotes the Federal statute relative to the requirement of keeping a list of shareholders, and the number of shares held by each, in the office available for inspection by all shareholders and creditors of the association, a copy of which must be sent to the Comptroller of the Currency on the first Monday of July each year. This list as submitted to Washington was also incorporated in the ad.

STATEMENT OF CONDITION

JUNE 30, 1939

BOARD OF DIRECTORS

FREDERICK H. PRINCE
F. H. Prince & Co., Providence, R. I.

ROBERT H. CABELL President, Armour & Company	JAMES A. McDONOUGH Investments, Providence, R. I.
ROBERT J. DUNHAM Investments	WILLIAM J. O'CONNOR Ass't General Manager, Union Stock Yard & Transit Co.
RICHARD HACKETT General Manager, Central Manufacturing District	DAVID H. REIMERS President, The Live Stock National Bank of Chicago
ORVIS T. HENKLE Vice-President and General Manager, Union Stock Yard & Transit Co.	CLYDE H. SCHRYVER President, Chicago Merchandise and Equipment Co.
ARTHUR G. LEONARD President, Union Stock Yard & Transit Co.	THOMAS E. WILSON Chairman, Board of Directors Wilson & Company

RESOURCES

Cash and due from banks.....	\$ 15,392,978.35
United States Government Securities.....	3,739,723.02
State and Municipal Securities.....	1,802,582.94
Other Marketable Bonds.....	1,279,530.12
Loans and discounts.....	5,432,918.21
Federal Reserve Bank stock.....	67,500.00
Bank building.....	450,000.00
Furniture and equipment.....	1.00
Interest earned, not collected.....	41,043.82
Current receivables and other assets.....	53,637.29
	\$ 28,259,892.75

LIABILITIES

Capital.....	\$ 1,000,000.00
Surplus.....	1,250,000.00
Undivided profits and reserves.....	355,782.31
Unearned Discount.....	24,559.29
Deposits.....	25,829,571.15
	\$ 28,259,892.75

Member Federal Deposit Insurance Corporation
ESTABLISHED 1868

WASHINGTON
J. H. Miner, vice-president, Seattle First National Bank, heads the Washington Bankers Association



INSTALLMENT LOANS - CHRISTMAS SAVINGS



Greater Protection - Lower Cost

For the first time banks are offered a **LOW-COST**, compact machine that enables them to handle their Installment Loans and Christmas Savings at the window. The small Burroughs Receiving-Posting Machine receipts the book in **ONE** fast, easy operation; it posts the ledger and prepares an audit journal as a by-product of receiving.

This modern machine provides triple protection with machine-printed, unchangeable figures that protect the bank, the customer and the teller. Its easy operation and the famous Burroughs Short-Cut keyboard help payment lines move faster.

This unusual machine requires little counter space and is attractive to the eye. No specially trained operator is required. THIS SAME MACHINE handles both Installment Loans and Christmas Savings.

For complete information telephone the local Burroughs office or write—

BURROUGHS ADDING MACHINE COMPANY . . . DETROIT, MICHIGAN

Heard Along MAIN STREET

E. Y. CHAPIN, chairman of the board, American Trust & Banking Company, Chattanooga, is the author of a recently published book of small town life entitled *A Harvesting of Green Fields*. The book was written 45 years ago. As the preface states, it has remained in manuscript form until recently when Mrs. CHAPIN "surreptitiously resurrected it and caused it to be published." It is so well written that the reader will immediately sense that had

the author chosen literature as a profession he would unquestionably have become one of America's best known writers.

—P—

LEMAN A. CAMBREY, vice-president and trust officer, Citizens Commercial & Savings Bank, Flint, Michigan, has had a varied career. He began his business life as a telegraph operator. Next he turned to farming and then was an

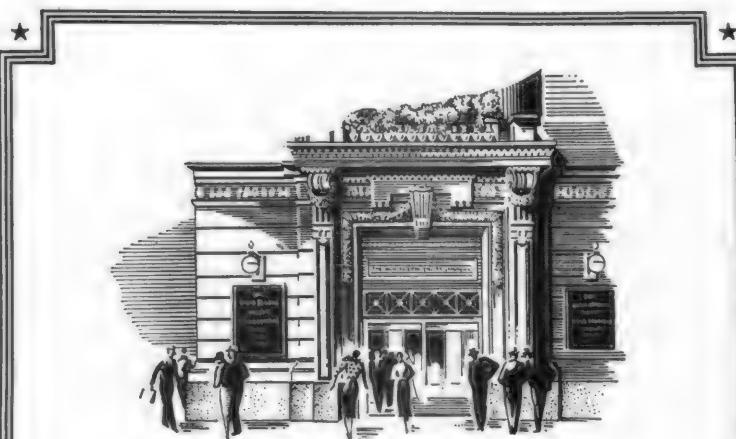
This material is compiled for
BANKING by Albert Journeay

auditor and accountant for a steel company. In the meantime he studied law and was admitted to the bar. He practiced law in Pontiac and during the years 1916-1919 was mayor of that city. Subsequently he turned to banking.

Mr. CAMBREY has been an ardent fisherman and hunter since he was old enough to hold a pole and tote a gun.

—P—

GEORGE C. MCKAY, chairman of the board, Security National Bank, Battle Creek, Michigan, has an unusual record in business and in the arts. When 19, he was forced to decide between art or business as a career and chose the latter. From a \$4.50 job with the Postum Com-



OUR FIFTIETH ANNIVERSARY

On August 12, 1889, The Northern Trust Company first opened its doors. In the fifty years that have followed, this institution has progressed, growing step by step with the territory which it serves. Yet today, customers find here the same spirit of helpful cooperation that motivated the founders. Correspondents in ever-increasing numbers are availing themselves of a friendly, interested service that goes beyond routine. Particularly in this month of our Fiftieth Anniversary, we wish to invite other out-of-town bankers desiring a Chicago connection to call upon us.

THE NORTHERN TRUST COMPANY

50 SOUTH LA SALLE STREET, CHICAGO
Member Federal Deposit Insurance Corporation



A painting by Mr. McKay

pany he rose to be first vice-president and treasurer of the W. K. Kellogg Co. When 51 years old he again took up art as an avocation and has since produced numerous paintings.

Recently he has turned to wood carving and the figures in wood are of the same high order as his paintings. He has also done outstanding work in colored moving pictures and has written a number of poems. While the only art training Mr. MCKAY has had consisted of seven lessons given him when he was 11 years old by a small town painter in payment of chores rendered, his work evidences rare talent.

—P—

Not all banks are fortunate in having outstanding personalities among their personnel. As a case in point this column

recently received a letter from one institution which said in part:

"So far as I know, we have no Roosevelts, Chamberlains, Daladiers, Hitlers, Mussolinis, Stalins, Hirohitos or Chiang Kai-sheks, among us; no scientists, economists, professors, preachers, explorers, artists, composers or poets; no editors, columnists, war correspondents, propagandists or ghost writers; no candidates for public office, politicians, statesmen, lobbyists or brain-trusters; no air pilots, pugilists, marathoners, jockeys or heroes of football, baseball, basket ball, cue ball, golf ball or high ball.

"We are just a hard-working, God-fearing crowd, trying to work out the cross-word puzzle of banking and looking for synonyms of 'income'."

— P —

Mrs. BESSIE GRANT, manager of the savings department, First National Bank of Winnetka, Illinois, has been a collector of dolls for 12 years. In her collection are 250 dolls from all over the world, including one that was made in 1776, one from Iceland and one from the Fiji Islands. Mrs. GRANT, who has been with the bank for 18 years, also collects coins, stamps and first flight airplane covers.

— P —

The Fifth Third Union Trust Company of Cincinnati has the distinction

Below, Joe D. Paxton, executive vice-president of the County National Bank and Trust Company of Santa Barbara is shown here bidding goodbye to his daughter upon his departure for one of the annual rides of the Rancheros Visitadores of which he is a charter member.

Each May for the past ten years some two hundred and fifty bankers and businessmen from all over the United States have gathered at Santa Barbara for a week's trek over the mountains to visit famous old ranchos



of having three of its officers serving on the boards of different colleges.

JOHN J. ROWE, president, is a member of the board of trustees of the University of Cincinnati. He is also president of the Associated Harvard Clubs of America. His son Bill, incidentally, stroked this year's Harvard Varsity Crew.

WILLIAM A. STARK, vice-president & tr. off., is serving his second term on the board of Hanover College, Hanover, Indiana. He is a member of the board of Lincoln Institute at Lincoln Ridge, Kentucky.

EDWARD W. NIPPERT, assistant trust

officer, has been reappointed for a nine-year term to the board of Miami University, Miami, Ohio.

— P —

E. T. CASHION, cashier, Bank of Lake Village, Lake Village, Arkansas, has as a hobby the compilation of scrap books. Mr. CASHION recently completed two remarkable scrap books containing all clippings available concerning WILL ROGERS. These books have been displayed in Little Rock's largest department store, at the state bankers' convention, and in the lobby of the Little Rock Branch of the Federal Reserve

STATEMENT OF CONDITION

Mercantile-Commerce Bank and Trust Company

Locust-Eighth-St. Charles
St. Louis

JUNE 30, 1939

THE RESOURCES

Cash and Due from Banks	\$64,631,461.71
U. S. Government Obligations, direct and guaranteed—	
(Pledged) \$15,106,495.19	
(Unpledged) 49,602,472.15	64,708,967.34
	\$129,340,429.05
Other Bonds and Securities—	
(Pledged) None	
(Unpledged) \$26,724,622.14	\$26,724,622.14
Demand Loans	6,979,848.09
Real Estate Loans	6,242,006.26
Time Loans	11,415,533.74
Stock in Mercantile-Commerce Company	51,362,010.23
(As authorized by the Banking Act of 1933, the Mercantile-Commerce Company is a wholly owned subsidiary of this Bank, with no Liabilities. Its Assets consist entirely of U. S. Government Obligations, carried at par.)	6,800,000.00
Stock in Federal Reserve Bank in St. Louis	396,000.00
Real Estate (Company's Building)	2,350,000.00
Safe Deposit Vaults	500,000.00
Other Real Estate (Former Bank of Commerce Bldgs.)	1,500,000.00
Overdrafts	3,865.41
Customers' Liability on Acceptances and Letters of Credit	248,576.52
Other Resources	22,284.42
	\$192,523,165.63

THE LIABILITIES

Capital Stock	\$10,000,000.00
Surplus	3,200,000.00
Undivided Profits	\$2,891,890.77
Reserve for Dividends Declared	3,191,890.77
Reserve for Contingencies	809,823.69
Reserve for Interest, Taxes, etc.	343,598.78
Unpaid Dividends	2,440.50
Bank's Liability Account Acceptances and Letters of Credit	248,576.52
Other Liabilities	2,565.93
Deposits, Secured: Public Funds	\$13,357,311.52
Other Deposits, Demand	128,602,283.08
Other Deposits, Time	32,764,674.84
	174,724,269.44
	\$192,523,165.63

All Securities pledged are to the U. S. Government or its Agents, State of Missouri and the City of St. Louis, to secure deposit and fiduciary obligations.

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

Bank. They have attracted unusual attention and generous praise from the press of the country.

— P —

FRED A. IRISH, president, First National Bank & Trust Company of Fargo, N. D., was recently offered the position as chairman of the agricultural committee of the United States Chamber of Commerce, of which organization he is a director. Because of his other duties Mr. IRISH was forced to decline this important post. He has done outstanding work for many years as chairman of the agricultural committee of

the North Dakota Bankers Association and for some years headed the Agricultural Committee of the A.B.A.

— P —

HERBERT FOX, vice-president, The American National Bank, Nashville, is division air officer on the staff of the commanding officer of the 30th Division, with the rank of lieutenant colonel. He has been actively flying since November 10, 1917. In point of service he is the oldest National Guard flying officer in the U. S. Colonel Fox has a total flying time of more than 6,000 hours, with more than 100 hours

in the new O-47 planes which cruise 250 m.p.h. The colonel combines his flying with business for his bank and keeps up his required flying time by visiting correspondents in distant cities as well as attending banking conventions. In 1923 he flew the first air mail out of the South and later with Major Meloy flew the first flight from New Orleans to Chicago.

Lt. Col. Fox



— P —

*Accurate as the charting
of a Ship's course —*

**FULTON
CORRESPONDENT
SERVICE**

FULTON NATIONAL
ATLANTA *Bank* GEORGIA

GENERAL AGENTS INSURANCE COMPANY MEMBER

OVERNIGHT
COLLECTION AND TRANSIT
SERVICE

AIRMAIL - Coast to Coast
RAIL MAIL - Within 500 Miles

**The Omaha
National Bank**

Member
F.D.I.C.

Omaha
Nebraska

STANLEY EYRE WILSON, executive vice-president, Central-Penn National Bank, Philadelphia, is a collector of old and rare books, especially those related to English history and literature. He is a member of the London Dickens Fellowship, and the American Society of Shakespeare. He was a Marine officer in the World War and served at Scapa Flow in active combat. Mr. WILSON also collects implements of war of a rare nature. He is interested in hunting and shooting.

— P —

In Arkansas J. L. WOOSLEY, assistant cashier, Citizens Bank of Carlisle, is known as the "Contest Banker". He takes great delight in and has received considerable compensation from participating in numerous national contests.

— P —

J. H. KLUG, comptroller of the American National Bank and Trust Company of Chicago, was elected president of the Chicago Conference of Bank Auditors and Comptrollers at its annual meeting on June 8.

Mr. KLUG was graduated this year from the Graduate School of Banking,

conducted by the American Bankers Association at Rutgers University.

—P—

WALTER ARMSTRONG, purchasing agent of the American National Bank and Trust Company of Chicago, was elected chairman of the financial group of the National Association of Purchasing Agents at the association's convention in San Francisco in May.

—P—

EVELYN G. SWANSON, secretary to executive vice president Odin, is one of several musicians at the Marquette National Bank, Minneapolis. For the



Miss Swanson

past two years she has sung daily at the Minneapolis Tribune Cooking School. Other employees have formed an orchestra, and one girl has written music on which she now receives royalties.

—P—

WILLIAM ELMER JOHNSON, teller of the Northwestern National Bank & Trust Company, Minneapolis, Minnesota, believes, with Cowper, that "Absence of occupation is not rest. A mind quite vacant is a mind distressed." He has

One of Mr. Johnson's pictures



August 1939

two major interests which occupy his leisure hours—art and music.

After some years of choir work and light opera singing he became a member of the celebrated Minneapolis Apollo Club—the second oldest choral society in the U. S. in respect of continuous season concerts.

Art has also been a major interest since his childhood. His paintings have been selected for exhibition in many Twin City art shows. His painting "Toward the Hills" was exhibited in Milwaukee. Many of his paintings portray the countryside of northern Minne-

sota, others, the picturesque milling district of Minneapolis, which offers a painter's paradise.

—P—

WILLIAM ARTHUR DURST, chairman of the executive committee of the Northwestern National Bank and Trust Company, Minneapolis, completed 50 years of service with his institution May 15. On that date he was guest at a testimonial dinner given by the senior officers and directors of the bank, honoring him for "half a century of devoted and unselfish service to the community and

COURAGE

Courage, the tradition of fire-fighters, is also an important factor behind your insurance policies. In the great Chicago fire of '71 and the Boston fire of '72, Fireman's Fund early demonstrated its courage by paying all claims in full. In 1906 it survived the greatest insurance test in history when it settled eleven million in claims in San Francisco. In all, over a quarter of a billion dollars have been paid to policyholders. Today, with assets of \$41,000,000 and policyholders' surplus of \$23,800,000, Fireman's Fund heads a strong group of companies providing practically all forms of protection except life.

S T R E N G T H
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OVER 11,000 HOME-TOWN AGENTS

STANDARD PROTECTION
COMPANY OF AMERICA

the bank." Mr. DURST is regarded as one of the most potent forces in the up-building of the great Northwest.

—P—

Three of the ten laymen on the National Council of the Protestant Episcopal Church are bankers. They are: AUSTIN J. LINDSTROM, assistant vice-president, First National Bank of Chicago; ROBERT V. FLEMING, president, Riggs National Bank, Washington, D. C. and former President of the American Bankers Association; and BLAINE B. COLES, vice-president, First

National Bank of Portland, Oregon, and former President of the Trust Division, A.B.A.

—P—

E. J. PERRY, president, First-Fond du Lac (Wis.) National Bank, was recently elected treasurer of the Episcopal Diocese of Fond du Lac.

—P—

WILLIAM O. KURTZ, JR., and Roy WEST of the American National Bank of Chicago are Scout Masters of Winnetka (Illinois) Boy Scout Troop 18.

Under their leadership this troop has become one of the best in the Chicago area. They have organized an advisory committee among the scouts' fathers that would compare favorably with the board of any banking institution.

—P—

O. O. TRAGETON, assistant trust officer of the Security-First National Bank of Los Angeles, was recently invited to accompany to San Francisco



Mr. Trageton

the three members of the Royal Norwegian Yacht Club who had just made maritime history by a fast sailing across the Atlantic in the 46 foot sailing craft, the *Oscar Tybring*. Mr. TRAGETON accepted and, since passengers could not be carried, shipped as an able seaman. He declared the 10-day trip to have been the most exciting and delightful experience of his life.

R. G. RANKIN & CO. CERTIFIED PUBLIC ACCOUNTANTS

Examinations
of
Banks and Trust Companies
for
Directors Committees

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CHICAGO

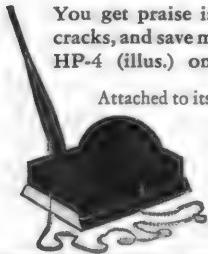
WASHINGTON

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and customer satisfaction — with
Handi-pen {not a fountain pen}
—on every desk

Here's your best investment in better employee and customer relations. Just pick up the popular Handi-pen, and it writes — instantly, smoothly. The point rests in fresh ink (a year's supply in one filling!) Ends refilling nuisance. No bother and strain of constant dipping, clogging, flooding. Low ink bills. \$2.50 to \$45.00 — including beautiful Deluxe sets for executives. HP-5 illus., \$4.00. Write today for Handi-pen on 10-day free trial.

You get praise instead of wise-cracks, and save money too—with HP-4 (illus.) on lobby desks.

Attached to its anchored base by a 24" chain to avoid lost pens and spilling. \$3.00 each.



(Tear out coupon and mail today)

Sengbusch Self-Closing Inkstand Co.
8B Sengbusch Building
Milwaukee, Wisconsin

Please ship me HP-4 HP-5 Handi-pen sets for a 10-day free trial. I understand there is no obligation on my part.

Name.....

Address.....

City..... State.....

COLORADO

Grover E. Totten, vice-president, Central Savings Bank & Trust Company, Denver, is the new president of the Colorado Bankers Association



Do's and Don'ts

EVERY person working in a bank, particularly where contact with the public is frequent, would do well to develop a set of mental rules for guidance. We are indebted to Louis F. Gerber, Jr., of the Corn Exchange Bank Trust Company, New York City, for the following suggestions, which are particularly applicable to the work of tellers. This is not Mr. Gerber's complete list, nor will other bank employees have difficulty in adapting these and devising others to fit their own type of work.

General

1. In fairness to yourself and your co-workers, keep your cage door locked at all times. Unfortunately, sometimes large shortages occur and it is at that time that anyone who might have had to enter your cage innocently must necessarily be implicated.

2. While you are at the window, don't worry about whether or not you will prove your cash at the end of the day. Concentrate on your work and the proof will take care of itself.

3. If you are counting and someone talks to you, do either of two things: listen, disregard the count and count over again when you are through; or continue the count and disregard the conversation. Don't try to do both at once.

4. Keep all the memorandums you receive and all the notations you make until you prove at the end of the day. Many an error has been located through these seemingly unimportant slips.

5. If an unusual rush occurs at your window, ask that another window be opened; don't try to take care of everyone yourself. When you double your speed you greatly increase the danger of making an error.

Receiving

1. At the beginning of each transaction have the working space in front of you absolutely clear of all money.

2. Prove the cash received by jotting down the total of each denomination to the left of the depositor's figures on the ticket. No money should be put in the drawer until the figure is proved.

3. The surest way to detect counterfeit bills is to learn to count each denomination by its face, not by the printed number. The eyes seem to be the weak spot of counterfeits. Don't try to look at the face of the bill as you draw it from your hand because the picture is moving. Look at it after it falls, when the picture is still.

4. Pay particular attention to all prior endorsements on checks received on deposit.

5. Bring to the attention of your superiors any large deposit for the account of a customer usually maintaining small balances.

Paying

1. Don't cash checks for anyone you don't know. Having seen a person at the bank many times doesn't mean that you know him. Know him in the sense that you can positively find him in the event that there is any irregularity about the check which you have cashed.

2. In paying out full packaged bills, use only those which have been wrapped a previous day. If you must pay out a package wrapped the

same day, verify the count for positive proof.

3. Don't be embarrassed about looking up a depositor's account if you are not sure that his balance is sufficient to cover his check. Care should be taken, however, in the way this is done so as not to offend the customer.

4. The back of each check is the best place to keep a record of the cash you pay out.

5. Be careful of the stranger who rushes in and wants change in a hurry. Quick transactions cause difficulties.

Regarding Customers

1. To greet your customer by name is worth a multitude of mumbled "good mornings".

2. Don't allow the size of a customer's balance to be the only yardstick by which you

measure the amount of service to be given.

3. Don't ever argue with a customer at the window. Refer the customer to the office where such matters are more easily adjusted to the better satisfaction of all concerned.

4. When paying out any considerable sum of money to a customer, handle the bills inconspicuously.

5. A regular customer is a potential customer for every service the bank has to offer. Sell all your bank's services.

Mr. Gerber makes a final suggestion to tellers: "Always remember that if there were no customers, there would be no bank, and if there were no bank there would be no tellers."

THE NATIONAL CITY BANK OF CLEVELAND

DURING the last 6 years, the deposits of this bank have more than trebled. The increase in deposits has been accompanied by substantial increases in the capital funds of the bank. This growth is shown by the following comparative figures:

	JUNE 30, 1933	JUNE 30, 1939
CAPITAL FUNDS:	\$ 3,000,000	\$ 13,942,100
DEPOSITS:	\$53,142,388	\$164,289,012
TOTAL ASSETS:	\$59,324,943	\$183,495,547

Statement of Condition

JUNE 30, 1939

ASSETS

Cash and Due from Banks	• • • •	\$ 67,277,636.18
United States Government Obligations	• • • •	53,276,606.76
Other Securities	•	19,104,012.71
Capital Stock of The National City Building Co.	•	2,125,000.00
Real Estate Owned	•	59,945.43
Loans and Discounts	•	38,693,117.11
Accrued Interest	•	364,806.36
Customers' Liability on Acceptances and Letters of Credit	•	1,804,112.91
Customers' Liability on Loan Commitments	•	672,166.68
Other Assets	•	118,142.99
		\$183,495,547.13

LIABILITIES

Capital Stock	• • • •	\$ 9,000,000.00
Surplus	• • • •	4,050,000.00
Undivided Profits	• • • •	892,099.54
		\$ 13,942,099.54
Reserves	•	2,463,521.79
Accrued Interest and Expenses	•	154,921.94
Deferred Credits and Other Liabilities	•	169,712.27
Acceptances and Letters of Credit	•	1,804,112.91
Loan Commitments Outstanding	•	672,166.68
Corporation, Individual and Bank		
Deposits	• • • •	\$ 126,497,002.67
Savings Deposits	• • • •	29,215,109.80
Trust and Public Deposits	• • • •	8,576,899.53
		\$ 164,289,012.00
		\$183,495,547.13

NOTE: United States Government Obligations carried at \$9,676,228.82 are pledged to secure trust and public deposits and for other purposes as required or permitted by law.



Member Federal Deposit Insurance Corporation

Automobile Finance Company Statements

As finance companies were organized, it was necessary for them to borrow large sums from banks, since their own capital was far too inadequate. In the early days—1915 to 1920—banks were not overly enthusiastic about granting large lines of credit to this comparatively new and untried type of business. Therefore, it was natural that pioneer companies were required to submit frequent and detailed statements for analysis. It is interesting and gratifying to note that to this day finance com-

pany borrowers are outstanding in their cooperation with bank creditors in providing complete details covering assets, liabilities and operations. This practice is not regarded as an unfair requirement, since the banks' "investment" in their business is on the average twice as great as the owners'.

Automobile finance company statements are subject to practically the same principles of analysis as any other statement as far as fundamentals are concerned. However, since the business

is of a very specialized nature it is more intelligible to calculate appropriate ratios to be compared with standards which pertain exclusively to the automobile finance business. The asset, liability and operating ratios include the principal items appearing on most finance company statements and serve as a supplemental basis for examining the company, provided the customary analysis of the receivables (75 to 85 per cent of assets) is made. The receivables analysis usually consists of details covering down-payment, terms, collateral and delinquency, with respect to volume and outstandings, and of course should not be the only criterion on which to base a line of credit.

The weakness of such a limitation is all the more apparent when a bank is in a position to analyze only that portion of the receivables pledged as collateral.

Although the following form is brief to the point of omitting some worthwhile factors, it is devised primarily in the interest of simplicity in making comparisons with preceding periods' statements as well as general averages. In this connection I am not unmindful of certain dangers in relying upon averages.

However, in this case, the figures are largely based upon surveys comprising several hundred finance companies, large and small, located in all sections of the country. Moreover, these averages are by no means intended to serve as goals, inasmuch as conditions vary widely, depending upon size, location, type of volume and time of analysis. They may be helpful as a guide in determining where a certain company is seriously out of line with reasonably conservative standards.

BIBLIOGRAPHY

SURVEYS and reports used in obtaining data upon which these percentages were based include the following:

The Financial Policies and Practices of Automobile Finance Companies by Harvey W. Huey and Arthur H. Winakor of the University of Illinois, February 1938. (Statistics based on statements from 1926 to 1936, inclusive.)

*Robert Morris Associates Trade Statement
Studies. Series 18, December 31, 1937.*

Analysis form prepared by Continental
Illinois National Bank & Trust Company,
Chicago. Statements 1936 to 1938 inclusive.

Analysis form prepared by E. E. Schmus,
vice-president, First National Bank of Chicago.
Statements 1935 to 1938 inclusive.

Miscellaneous statements of automobile finance companies. 1936 to 1938 inclusive.

Bank of America

NATIONAL TRUST and SAVINGS ASSOCIATION
CALIFORNIA'S ONLY STATEWIDE BANK

*Condensed Statement of Condition
June 30, 1939*

RESOURCES

TOTAL RESOURCES	
Cash in Vault and in Federal Reserve Bank	\$ 157,749,988.83
Due from Banks	70,158,283.11
Securities of the United States Government and Federal Agencies	398,637,286.14
State, County and Municipal Bonds	126,805,996.84
Other Bonds and Securities	37,686,730.97
Stock in Federal Reserve Bank	2,760,000.00
Loans and Discounts	695,102,388.44
Accrued Interest and Accounts Receivable	6,151,784.66
Bank Premises, Furniture, Fixtures and Safe Deposit Vaults	34,636,313.32
Other Real Estate Owned	5,708,000.21
Customers' Liability on Account of Letters of Credit, Acceptances and Endorsed Bills	13,629,996.48
Other Resources	787,491.29
TOTAL RESOURCES	\$ 1,549,824,260.09

TOTAL RESOURCES • \$ 1,549,824,260.09

LIABILITIES

Capital	\$ 50,000,000.00
Surplus	43,000,000.00
Undivided Profits	24,370,689.81
Reserve	1,803,387.51
Reserve for Interest, Taxes, Etc.	586,476.01
Reserve for Interest Received in Advance	7,397,591.81
Liability for Letters of Credit and as Acceptor, Endorser or Maker on Acceptances and Foreign Bills	14,349,314.84

DEPOSITS:

Demand Savings and Time \$ 600,790,189.32 807,516,608.99 1,408,306,798.31

TOTAL LIABILITIES \$ 1,549,824,260.09
his statement includes the figures of the London, England.

MAIN OFFICES IN TWO RESERVE CITIES OF CALIFORNIA



495 Branches Serving All California



AUTOMOBILE FINANCE COMPANY
ANALYSIS

*Asset & Liability Ratios:	Per cent
Cash to debt.....	15.0
Cash to total assets.....	10.0
Debt to total assets.....	63.0
Debt to working capital.....	180.0
Current ratio.....	1.7.1
Deferred income to retail paper.....	6.0
Dealer reserve to retail paper.....	5.0
Reserve for losses to retail paper.....	2.3
Repossessions to net worth.....	2.0
Repossessions to total assets.....	.7
Net worth to assets.....	31.0
Net worth to total debt.....	50.0
Cash, retail, & whse. due in 6 mos. to debt.....	100.0
Cash, retail, & whse. due in 12 mos. to debt.....	140.0
Number of months' collections required to pay debt net of cash and whse. paper.....	6.0
 <i>Operating Ratios:</i>	
Borrowing cost to gross income.....	16.0
†Total expense to gross income.....	58.0
Net profit to gross income.....	26.0
Net profit to net worth.....	11.0
Net profit to volume.....	1.8
Loss to liquidated retail	Usually under 1 per cent
Volume to debt.....	320.0
Volume to receivables.....	250.0
Volume to net worth.....	680.0

* In making comparisons of asset percentages, do not deduct deferred income and reserves from asset items.

† Includes charge-offs and income taxes.

R. A. BEZOIER
First National Bank
Rochester, Minnesota

The Middleman

FIGURES compiled by the Twentieth Century Fund indicate that on the basis of 1929, the peak year for production, distribution and consumption of goods, the services of wholesalers cost American consumers an estimated \$7 billion, or 18 per cent of the estimated total bill of \$38.5 billion for the entire distribution system.

The \$7 billion cost occasioned by intermediary or wholesale trade—the traditional "middlemen"—compares with retail trade costs of \$12.6 billion (33 per cent of the total); manufacturers' distribution costs of \$9.1 billion (24 per cent); and transportation costs of \$8.8 billion (23 per cent). Miscellaneous distribution costs of \$1.1 billion make up the remainder.

A survey of profits in various wholesale trades indicates that "wholesale grocers earned 1.3 per cent on sales in 1936, confectionery wholesalers made 2.2 per cent, dry goods wholesalers earned 2.7 per cent while profits of paint and varnish wholesalers ran as high as 4

per cent of sales." All these figures, it is pointed out, relate to operations in a fairly profitable year. During the depression years from 1930 or 1931 to 1934 or 1935, a considerable proportion, if not the majority, of distributors showed a net loss on their operations.

Taking up the question of whether it would be possible to eliminate the wholesaler, the report lists some of the functions now performed by him: "Every retailer would have to do business directly with the manufacturer of every article he carries in stock if it were not for the fact that the intermediary dealer performs this function

for him. For example, a retail grocer handling from 1,200 to 3,000 items may select his merchandise from a typical wholesaler's inventory of between 10,000 and 20,000 items. An independent druggist who may carry as many as 12,000 articles may buy what he needs from a wholesaler who carries from 40,000 to 60,000 items."

Such considerations lead to the conclusion:

"This intermediary function is an essential part of the nation's distributive system. If it were not performed by someone our economy in its present form could hardly exist."

M M
MINNEAPOLIS-MOLINE
M M
MODERN FARM MACHINERY

POWER for PROGRESS

WHEN a display of farm machinery will draw a packed audience of 15,000 city people on one night, as was the case at the recent Minneapolis-Moline Exhibit in the Minneapolis Auditorium, it is evident that farm and city interests are closely linked.

Upon the prosperity of the farmer the prosperity of the nation is built; and the farmer who pursues prosperity with modern, time-saving machinery, is the one that wins the race. Thousands of progressive farmers will be in the market for Minneapolis-Moline Tractors and Farm Machinery for 1939 operations, and with the cooperation of MM dealers and local bankers, the necessary purchases can be made. Farmers who merit credit should be helped to make more money through the use of modern machinery. More money in the farmer's pocket means more money for all business and consequently for the banker.

Get acquainted with your MM Dealer.

BRANCHES NEAR EVERYWHERE

MINNEAPOLIS-MOLINE
POWER IMPLEMENT COMPANY MINNEAPOLIS MINNESOTA

Cooperative Investment Counsel

To the Editor:

IT is my belief that there is a practical solution to the investment problem of country banks too small to employ their own investment officers. It can be termed a bank investment management cooperative. Briefly this means the employment by a small group of banks of a trained investment man on a basis comparable to that used by several judicial districts with a circuit judge.

This belief was so strong that I undertook to put it to the test early in 1938. The evident success of this cooperative

plan leads to the opinion that it can be employed by other small groups of banks in other parts of the country.

The idea itself is not entirely unique, although in general it has not been employed on the basis of having one trained investment man do for a small group of country banks what one officer does for a large city institution. Raymond N. Ball, president of the New York State Bankers Association two years ago, advocated at that time county-wide associations of banks employing an investment man with an

assistant. While this suggestion was definitely constructive, such a group seems to me too large in most counties for effective work. In addition it would seem to entail the inevitable neighborhood rivalries which so often prevent country bankers from cooperating.

The bank investment cooperative which employs me as consultant consists at present of three good-sized country banks in the Philadelphia area. A fourth bank is expected to join, but this should make the maximum number for effective work with banks of this size. Total investments of the three exceed six millions of dollars.

The mechanics of this plan are simple. Each bank is charged an annual fee based on such factors as the difficulty of the job to be done, the size of the portfolio in general, the distance from the consultant's office, and so on. The first factor outweighs all of the others in determining the fee. The total fees less expenses should equal what a qualified investment man would be worth to a single institution approximating in size the contributing banks. The cost to each bank is thus kept reasonable.

Once a week, and in one case once every two weeks, I meet with the bank's executive officer—in the case of one bank, with a committee of three. These meetings are devoted to furthering a definite plan of investment procedure applied to the particular bank and agreed upon during the early meetings. From time to time the plan is subject to modification depending on what progress has been made in building up a program and upon general conditions. The important thing is to have a program.

In short the country bank under this arrangement can become a buyer of bonds suitable to its needs rather than a fair prospect of a selling drive.

THOMAS E. MORRIS
Philadelphia, Pa.

CITIZENS NATIONAL TRUST & SAVINGS BANK of LOS ANGELES

ORGANIZED 1890

Member Federal Reserve System
Member Federal Deposit Insurance Corporation

Condensed Statement of Condition at close of business June 30, 1939

RESOURCES

Cash and Due from Banks	\$ 34,614,679.16
United States Obligations, Direct or Fully Guaranteed	32,692,012.24
State, County, and Municipal Bonds	5,669,807.62
Other Bonds	1,609,751.97
Loans and Discounts	47,489,304.63
Federal Reserve Bank Stock	245,250.00
Stock in Commercial Fireproof Building Co.— Head Office Building	348,500.00
Bank Premises, Furniture and Fixtures, and Safe Deposit Vaults (Including Branches)	1,018,031.43
Other Real Estate Owned	1,555,474.29
Customers' Liability under Letters of Credit and Acceptances	100,079.06
Earned Interest Receivable	298,376.68
Other Resources	474,504.03
TOTAL	\$126,115,771.11

LIABILITIES

Capital Stock	\$5,000,000.00
Surplus	3,175,000.00
Undivided Profits	1,150,000.00
	\$ 9,325,000.00
Reserves for Interest, Taxes, Dividends, Contingencies, Etc.	920,282.12
Letters of Credit & Liability as Acceptor or Endorser on Acceptances and Foreign Bills	114,036.41
Other Liabilities	16,643.24
Deposits	115,739,809.34
TOTAL	\$126,115,771.11

Head Office: Spring Street at Fifth, Los Angeles
BRANCHES THROUGHOUT LOS ANGELES

Forgery Rates Revised

BANK forgery coverage and rates have been revised as a result of a two-year study by the 42 member companies of the Surety Association of America, the Towner Rating Bureau and the Insurance Committee of the American Bankers Association.

"It is a source of mutual satisfaction," says an announcement, "that the study has resulted in better coverage at a reduced cost."

Bending the Twig

WHILE waiting to interview the president of a bank located in a small city, I noticed that six or eight young men were shown into the president's private office ahead of me.

When it came my turn, I said to the banker: "You seem to have an unusually large number of young customers. Do you try to see every youngster who asks to see you?"

The banker smiled, "Yes, indeed," he said. "I find that one of the most profitable things I do is to spend some time each day talking to these young men who will one day be carrying on the business of our community. I call it 'bending the twigs', and a little study of our business will show that some of our very best customers today are the boys and girls who seemed to be taking up a lot of my time only five or six years ago.

"Time spent in talking to young people is profitable in many ways. You would be surprised how many of these young fellows bring us new customers, maybe their parents, maybe some new people moving into the community, maybe other boys and girls, maybe accounts of their clubs. And I get a lot of personal satisfaction out of knowing these youngsters, and watching them begin to take over their part of the local affairs. Keeps a fellow young, just listening to them. Keeps a man from forgetting that he once built air castles, himself."

"Do they often profit by the advice you give them?"

"Nearly always," the banker replied. "They know that we want their business, but that it is bad management for both them and the bank to get started on something that's going to lose them money. They trust me because they believe I am interested in them. And we've simply got to have their business. Otherwise, what are we going to do for customers when the present group of merchants and farmers and professional men and women pass on?"

The modern banker needs an open mind toward young folks and their problems. The world changes and customs with it, but the youth of today are much the same as were the young people of a generation or two generations ago. They want to prepare for the responsibilities that will be theirs.

Looking at the boys and girls of today who seem to flout many of the conventions, it is hard for grown-ups to see in them staid business men and women. But, 20 years ago some of today's most energetic men and women were looked upon with disfavor by their elders. In those days, the wise old men said of many of today's good bankers that "that lad will never make the man his father is."

One of the banker's present jobs is to solve part of his future problems by starting at once to bend some twigs that will grow into trees that are inclined to be loyal to the local banks and other local institutions.

ELLEN NEWMAN

IN NEW ENGLAND

The National Shawmut Bank of Boston occupies a key position in the New England banking field. With correspondent banks located in nearly 250 communities in this important industrial area . . . our complete facilities are promptly available to handle every type of banking business.

THE NATIONAL
Shawmut Bank

40 WATER STREET • BOSTON

Member Federal Deposit Insurance Corporation



THE PUBLIC NATIONAL BANK AND TRUST COMPANY OF NEW YORK

Service— Maintaining an intimate, personalized correspondent bank service.

Experience— Officials with years of service in this field, assuring a knowledge of requirements and valuable assistance.

Policy— To cooperate with out-of-town banks rather than compete for business which is rightfully theirs.



Resources over \$165,000,000

ESTABLISHED 1908

MEMBER
NEW YORK CLEARING HOUSE ASSOCIATION
FEDERAL DEPOSIT INSURANCE CORPORATION

Commercial CREDIT COMPANY, Baltimore

Capital & Surplus Over \$64,000,000

FOUNDED in 1912, with \$300,000 Capital, Commercial Credit Company is today one of the largest institutions of its kind. It operates through more than 4,000 employees in more than 200 offices in the United States and Canada, and is owned by more than 20,000 stockholders. Bank Relations Dept.

Short Term Notes
Limited amounts
upon request—
at current discount rates.

Do your Directors read
BANKING?

ASK BANKING

Front-feed Machines

What are the advantages of the front-feed machines over the back-feed? And will such advantages justify the discontinuance of the back-feed machines?

ONE advantage of the front-feed machines is that they enable the use of a journal sheet. This is as complete a record of the day's postings as was the old-style Boston ledger. Therefore it is not necessary to handle all the individual sheets when calling back for errors. The machine accumulates the three totals of debits, credits and new balances separately. This also aids in finding errors as it is quickly seen whether such errors were made in deposits, checks or in the picking up of the old balances. Alignment is easier as the sheet is visible to the bookkeeper. The front-feed machine certainly saves both time and trouble over the back-feed, which is the reason why it is in use by most banks today. Whether these advantages are sufficient to warrant the discarding of present back-feed machines is for individual decision. It would, to some extent, depend upon how rushed the bookkeepers are.

A Personnel Problem

Is there any solution to the problem of old and inefficient employees?

THE only satisfactory solution is an adequate pension fund. To dismiss summarily an employee who has been with the bank for many years, merely

because age or infirmity has rendered him inefficient, is hardly just. Yet the inefficiency of one person may very easily retard the efficiency of an entire organization. To say that everyone should voluntarily lay aside sufficient during his productive years to take care of the unproductive years is to ignore the human equation. This is particularly true in banks where the salary average is low but where a certain standard of living must be maintained. An adequate pension arrangement, preferably one to which both the bank and employee contribute, makes the bank independent of such problems.

Personal Loan Volume

How should a bank decide upon the volume of personal loans it should accept?

SINCE such loans are spread over a fairly long period, usually a year to 18 months, they would seem to be a type of loan more applicable for investment of time than demand deposits. Peculiarly, however, some states will not allow any savings deposits to be invested in personal loans. It is hard to understand why because the loss ratio in such loans has been proved by experience to be considerably less than in bonds, mortgages or the regular loans. Unquestionably a standard for the amount of such investments should be set up, as indeed should a standard for the amount of all investments. What that standard will be will vary with localities and conditions. One suggested

This department is compiled for
BANKING by E. S. Woolley

is 25 per cent of the time deposits plus 25 per cent of the available stockholders' funds.

Loan Renewals

From an income point of view is it not better to renew a loan of \$100 every 30 days for a fee of 50 cents than to have it on a monthly repayment basis?

IT is not clear from this question whether the "fee of 50 cents" is in addition to the interest or is just a minimum interest charge. If the former, a \$100 note renewed every 30 days at 6 per cent would yield a total of \$12 during the year; if the latter it would yield but \$6. On a monthly repayment basis discounted at 6 per cent the gross income would be \$6, exclusive of any investigation fees. However, the bank would be receiving \$8.33 a month repayments which would be available for reinvestment. At 6 per cent per annum these repayments would yield \$2.66 during the 11 months. This makes a total of \$8.66, exclusive of investigation fees, to compare with the \$12. However, the cost of drawing 12 different notes, entering them in the liability ledger, tickler files, etc., will be considerably more than the like number of entries in the instalment loan passbook, if the bank is properly organized to take care of small instalment loans. Then the

BOOKLETS

PAPER. *The Comprehensive Sample Book.* Hammermill Paper Co., Erie, Pa. 234 samples of Hammermill papers in a flat-opening binder.

BONDS. *United States Government Securities.* C. J. Devine & Co., Inc., 48 Wall Street, New York City. A review of U. S. Government financing and price records. Contains valuable statistical information. 56 pages.

Outlook for the Banking Business. Bondex Incorporated, 1 East 57th Street, New York City. Signs which,

in the writer's opinion, indicate that an upward move in interest rates is approaching.

EMPLOYEE RELATIONS. *Notes and Quotes.* Connecticut General Life Insurance Company, Hartford, Conn. Reports on employee relations culled from various sources.

WAREHOUSING. *Warehouse Receipts as Collateral.* American Warehousemen's Association, 222 West Adams Street, Chicago. Functions and limitations of the use of warehouse receipts as collateral, explained and defined.

AIR-CONDITIONING. *Carrier International News.* Carrier Corporation, Syracuse, N. Y. Being Volume 7, Number 3, of this illustrated periodical.

BUILDING. *Plywood Progress.* Douglas Fir Plywood Association, Tacoma, Wash. 1938 report of Douglas fir plywood performance and utility in present day building.

PUBLIC RELATIONS. *Two Dozen Ways to Make Friends for a Bank.* The Todd Co., Inc., Rochester, N. Y. Some practical suggestions for building local community goodwill.

instalment loan would, in all probability, be paid by the end of the year, while the renewed loan would just as likely have become a habit.

Service Charges

Does a bank lose accounts and goodwill through the installation of service charge measures?

THE phraseology of the question would seem to indicate that the loss of accounts would be synonymous with the loss of goodwill. This is hardly true. Goodwill in a bank is synonymous with respect, not with giving away services. The banks of the country gave away services, automobiles, umbrellas, etc., during the years immediately preceding the fall of 1929. But that did not stop depositors from rushing to withdraw their money when they thought that it was in danger. And who can blame them? Depositors are first interested in the safety of their principal, not in free services. A bank will lose accounts, yes. But it will gain in real goodwill as is evident from the fact that deposits have always gone up after correct schedules have been installed. This is because depositors have realized that the bank has discontinued unprofitable practices and therefore has become a safer bank with which to deal.

Supplies

Should a bank carry a perpetual inventory of its stationery and supplies?

PROPER controls are essential to efficient operation. The banks of the country spend upwards of \$27,000,000 annually for stationery and supplies. This is an amount which calls for control in order to avoid wastage. Perpetual inventory cards controlling the stockroom are not difficult to install or maintain. The first step is to place one person in charge of the stockroom, which should be kept locked and supplies requisitioned only as required. The stockroom itself should be divided into bins varying in size so as to accommodate the different styles and quantities of forms. Each bin should be numbered, and its number should also appear on the respective inventory cards. On these cards it is also advisable to show the average yearly consumption of each article or form. The only monetary figure needed on such cards is the cost at the date of purchase, the running inventory being kept in quantities only.

Notary Fees

Can a bank legally retain notary fees where it has a written agreement with the notary to that effect, and where it pays for the notarial seal and other costs?

IT has been decided in many cases that notary fees are statutory and cannot be assigned in advance of their collection.

Any such contract, therefore, is

unenforceable. The various decisions apply not only where the bank has retained all, but also where it has retained only part of the fees. In cases where a bank has been following this practice it would seem advisable to take an assignment from the employee for all notary fees previously collected. The better way, though, is to arrange with the notary employee so that he retains his own fees and the bank guarantees a stipulated salary making up the difference between the fees and the guaranteed amount.

The Cleveland Trust Company

Banking Offices located throughout Greater Cleveland and nearby

CONDENSED STATEMENT OF CONDITION, JUNE 30, 1939

ASSETS	
Cash on Hand and in Banks	\$ 114,866,079.58
United States Government obligations, direct and guaranteed, less Amortization Reserve .	108,566,326.07
State, Municipal and Other Bonds and Investments, including Stock in Federal Reserve Bank, less Reserves	13,350,878.59
Loans, Discounts and Advances, less Reserves .	129,768,714.06
Banking Premises (including investments and other assets indirectly representing bank premises) .	6,436,402.53
Other Real Estate (including investments and other assets indirectly representing other real estate) Less Reserves	9,578,308.71
Other Resources	2,088,644.34
Customers' Liability on Acceptances Executed by this Bank	121,520.49
Total	\$ 384,776,874.37
LIABILITIES	
Capital Notes	\$ 13,825,000.00
(Subordinated to Deposits and Other Liabilities)	
Capital Stock	13,800,000.00
Surplus and Undivided Profits .	4,966,166.78
Reserve for Contingencies .	101,869.14
Retirement Fund for Capital Notes and Accrued Interest to August 1, 1939	538,670.30
	33,231,706.22
DEPOSITS	
Demand	\$ 157,309,687.83
Time	173,284,498.04
Estates Trust Department (Preferred)	11,444,926.16
Corporate Trust Department (Preferred)	5,885,221.46
	347,924,333.49
Accrued Taxes, Interest, etc.	1,445,839.94
Other Liabilities	2,053,474.23
Acceptances Executed for Customers	121,520.49
Total	\$ 384,776,874.37

United States Government Obligations and other assets carried at \$17,073,060.96 are pledged to secure public funds and trust deposits and for other purposes as required or permitted by law.

MEMBER FEDERAL RESERVE SYSTEM

Member Federal Deposit Insurance Corporation

Letters to the Public

By DUNLAP C. CLARK

The author is president of the American National Bank, Kalamazoo, Michigan.

THE American National Bank of Kalamazoo, Michigan, considers its lobby bulletin board one of its most effective methods of public contact.

The board stands in the lobby of the office building where the bank occupies the main floor, but outside the doors to the banking quarters proper. Accordingly, it is "working" before and after banking hours, and reaches the two to three thousand people who daily enter the building, even though they may not go into the bank.

The name of the bank and its messages are brought prominently to the attention of people waiting for the building elevators, and a large "circulation" has been built up among those who watch for the new displays each week. Banking as a business of human relationships must deal with every walk of life, and the patronage of the leading office building in a city of 60,000, with its physicians, lawyers, insurance men and others, provides an excellent cross-section of potential customers.

The frame of the bulletin board measures 30 x 60 inches overall. A card 29 x 44 inches depicting a hand holding a letter is set under glass inside the frame, with a center transparency the size of a letterhead. Messages inserted here, illuminated from behind by an electric light, attract gratifying attention.

A few samples are:

CHECK YOUR NEEDS OF SAFE DEPOSIT

Nearly everyone has important papers and other valuables which should be safeguarded from loss or forgetfulness. Our massive vaults are the most modern in this part of the state. They provide a convenient, permanent depository where valuables will be secure at all times and readily accessible when needed.

Safe Deposit Boxes are available at a small rental. Customers have access to our vaults at any time during business hours. We invite you to use this convenient and practical feature of our service. It will take only a few minutes to arrange for a box.

THRIFT IN THE 18TH CENTURY:

"Economy makes happy homes and sound nations. . ."—George Washington.

THRIFT IN THE 19TH CENTURY:

"Economy is one of the highest virtues. It begins with saving money." —Abraham Lincoln.

THRIFT IN THE 20TH CENTURY:

Our intimate experience with the financial problems of individuals has convinced us that thrift—careful spending and regular saving—is still the key to security and success.

We particularly like the following thoughts recently included in a statement from the Boardwalk National Bank of Atlantic City, N. J., as the ideas coincide fully with ours:

"Dollars are like skilled workmen. Lying idle, their worth is at its lowest ebb, but when dollars are kept at work productively they contribute to the wealth of the community and their value reaches its peak.

"A dollar is not a highly paid workman. True, sometimes for short spurts dollars will earn amazingly high wages. Such things happen also to workers in every trade. But like skilled workmen, dollars earn more in the long run when they have steady jobs at less spectacular wages.

"This bank has idle dollars in its vaults. We would much prefer to have them at work, earning an income through interest. We are ready at all times to make loans to local business men, requiring only that the borrower conform to the requirements of sound banking.

"We invite you to consult any of our officers about a loan. We promise you a sympathetic hearing and prompt decision."

Here is another example:

EACH ON ITS OWN MERITS

WHEN you come to this bank for a loan, you will find that your application is judged wholly, but in a friendly spirit, on its own merits. If the loan will benefit you and the community and is a safe use of our depositors' funds, we shall be glad to make it. Our officers, directors and stockholders welcome any sound opportunity to make the bank's funds of broader use to the community and its people.

DID YOU EVER stop to consider that you, as business men, start with a decided advantage in approaching your bank for a loan? The major income of a constructive bank comes through the money it lends. How foolish then is the man who remarks that banks do not want to lend money. But—the banker who is a proper custodian of your money and mine, must set up conditions which make loans secure and the funds thus advanced readily available to depositors.

That is why borrowers are asked to give financial statements.

That is why loans to businesses must be backed by proper financial statements and loans to individuals supported by collateral of marketable nature.

That is why loans should have reasonable liquidation schedule.

And borrowers should first be depositors.

While the principles of running a bank or any other type of business are much the same, the banker must necessarily be a more cautious salesman than his fellow merchants. The goods on the grocer's shelf, for instance, belong to the grocer; the banker's merchandise, money available for loans, belongs to his depositors.

These messages are written on stationery of the bank. In some instances they are personalized further by appearing over the signature of the president or the officer supervising the particular banking function discussed. Occasionally, messages are brightened by simple pen and ink or color sketches by a staff member. The very elasticity of presentation methods is an asset as is the fact that there is practically no maintenance cost.

The plan has been in use almost four years, with new letters ordinarily prepared weekly. Frequently these communications supplement or elaborate subjects currently presented in newspaper advertisements of the bank.

With Letters of Introduction

AFTER a Canadian banking experience of 41 years (30 of them with the rank of manager), I had an illness last Summer and asked my bank to retire me. It did so at the end of the year.

Early this Spring my wife and I motored down your West Coast for a holiday. With a banker's caution I armed myself with travelers' checks and in addition letters of introduction to banks in two cities, guaranteeing payment of any personal checks for expenses.

Running into heavy snowstorms in southern Oregon, we shipped our car by rail to Sacramento, thereby disarranging our budget. I dropped in at larger banks in several cities and was gratified and flattered at my reception by chief executives—attentions it has always seemed to me not quite merited by my standing in the profession. It did not occur to me to fill the breach in my budget.

Natural dread of being short of money overcame me, however, farther on. We might have an accident, or the apartment hotel might demand a month's rent in advance. It was the Saturday before a Monday state holiday. I dropped into a bank, explained who I was and that I carried the letters of introduction. The busy officer was very friendly and asked for nothing but my personal check, which I crossed

with request for payment at par by the San Francisco bank.

After getting the cash from a teller I strolled back to the officer and happened to remark that of course I had travelers' checks in my pocket. Immediately something seemed wrong. He regarded me questioningly and at once I found myself in his position, thinking: "It's too late to recall my initials on that check. It would look foolish now to betray panic by asking him to prove the existence of the travel-

ers' checks or to demand production of the claimed letters. If he really has the checks why would he be trying to cash his personal one? He's probably lying. When we get that check of his back from San Francisco next Wednesday he may be a thousand miles away."

Undoubtedly I was under suspicion. The consciousness of guilt was a new experience, so probably everything I said made things worse. I even got out of my car again before leaving town and

THE NATIONAL CITY BANK OF NEW YORK

Head Office · 55 WALL STREET · New York

Condensed Statement of Condition as of June 30, 1939

INCLUDING DOMESTIC AND FOREIGN BRANCHES

ASSETS

Cash and Due from Banks and Bankers.....	\$ 824,543,860.39
Gold Abroad or in Transit	1,732,922.74
United States Government Obligations (Direct or Fully Guaranteed)	626,450,839.47
Obligations of Other Federal Agencies	56,106,026.61
State and Municipal Securities	80,524,734.46
Other Securities	76,084,944.00
Loans, Discounts and Bankers' Acceptances	488,144,877.68
Real Estate Loans and Securities	8,798,219.46
Customers' Liability for Acceptances	12,472,688.93
Stock in Federal Reserve Bank	3,735,000.00
Ownership of International Banking Corporation (Including Paris Office)	8,000,000.00
Bank Premises	44,705,142.35
Other Real Estate	656,100.68
Other Assets	818,434.39
<i>Total.</i>	<u>\$2,232,773,791.16</u>

LIABILITIES

Deposits	\$ 2,062,823,358.98
Liability on Acceptances and Bills	\$32,822,478.75
Less: Own Acceptances in Portfolio	15,796,830.94
Items in Transit with Branches	17,025,647.81
Reserves for:	1,856,785.92
Unearned Discount and Other Unearned Income	4,000,616.11
Interest, Taxes, Other Accrued Expenses, etc.	5,797,196.00
Dividend	3,100,000.00
Capital	\$77,500,000.00
Surplus	47,000,000.00
Undivided Profits	13,670,186.34
<i>Total.</i>	<u>138,170,186.34</u>
	<u>\$2,232,773,791.16</u>

Figures of Foreign Branches are as of June 24, 1939.

\$57,860,537.72 of United States Government Obligations and \$25,611,710.69 of other securities are deposited to secure \$58,647,977.05 of Public and Trust Deposits and for other purposes required by law.

(Member Federal Deposit Insurance Corporation)

OHIO BANKERS

The newly elected Ohio Bankers Association president is Philip R. Peters, cashier of the Fairfield National Bank, Lancaster



came back, as though ostensibly to supply a bit of information omitted in our brief discussion of Canadian banking. It was no use: I looked guilty and I knew it and he knew it.

Ten days later I dropped into a smaller bank in another city. This time I presented my business card and my letter of introduction. To my amazement I was turned down. Nor was I offered any courtesy, welcome or greeting of any sort. In short, I was again under suspicion, this time before I had got anything.

For a lifetime I had cashed checks practically throughout my own country and the United States, in Europe and

in southern Mexico. It had never occurred to me that I might be refused credit, my word doubted and even my credentials ignored.

"The man's a fool," I told myself. "Any experienced bank officer would have known better. What's the good of his years in the business if he hasn't got what it takes to size up a situation like this, and a man like me?"

Addressing an audience of women credit grantors, I once marvelled that department stores were not ruined by careless, indiscriminate check-cashing, and lauded the banker's judgment by boasting that, in 17 years of hourly initialing checks for strangers, my bad

ones had averaged less than one every two and a half years. I felt that I knew instinctively whether the man facing me was worthy of credit. Why didn't this fellow have that much sense? And it was bad business. His bank would have got an exchange charge on my check. In future, instead of offering paper on which there is a profit I'd handle only travelers' checks on which there is none.

That was Thursday. By Friday I was in a judicial frame of mind over it. Seriously, what really was the difference between my boasted unerring judgment and that banker's faulty one? Thinking it over, carefully and deliberately, a new light began to dawn on me. Instead of the banker's deciding whether the strange check should be cashed, it would be more proper to say that in effect it is the stranger who decides the matter. Either he has entire confidence that his request should be granted, or he is doubtful about it. And it is this confidence or lack of it that the banker reads. When I entered that bank the earlier incident was very fresh in my mind. I was going to be circumspect and not make any slip to arouse suspicion: I would display proofs of my character before they were asked. In short—without realizing it—I was in doubt as to whether I would get by.

The vice-president who refused me—by my own standards—was perfectly right in his reactions.

PERCY GOMERY

Vancouver, B. C.

BARRON'S SECOND "Investing for a Widow" PRIZE CONTEST

\$1000 for Investment Ideas

In 1925 BARRON'S sounded public opinion on the subject of investment, by a prize contest on the problem of investing \$100,000 for a widow with two children. The results were so successful in providing answers for the investment questions of that period that BARRON'S has decided to hold a similar contest again in the hope that the plans submitted will furnish helpful ideas in the puzzling situation that confronts the investor today.

THE PROBLEM

The problem is to assume that a young widow with two children has been left a legacy of \$100,000. How would you invest this sum of money for her? For the best answers, BARRON'S offers the sum of \$1000 in cash prizes.

Conditions of Contest

Answers must be in the form of an article suitable for publication in *Barron's* of not more than 2500 words, and must include a list of the specific investments suggested. MANUSCRIPTS MUST BE TYPEWRITTEN on one side of the paper with author's name and address appearing on a separate page attached to manuscript, and must be received by Competition Editor, *Barron's*, 44 Broad St., New York City, on or before August 24, 1939.

This opportunity is open to everyone whether a subscriber to *Barron's* or not, except members of the staff of *Barron's* and affiliated publications.

The winning answers will be published in *Barron's* and the manuscripts for them will become the property of *Barron's*. No manuscripts will be returned.

There will be eight awards as follows:

First Prize	\$400
Second Prize	\$250
Third Prize	\$100

and five honorable mentions of \$50 each.

The editorial staff of *Barron's* will act as judges with such outside assistance as they may deem desirable.

All the answers that are printed in *Barron's*, whether they win a prize or not, will be paid for at regular space rates.

It is understood that in conducting this contest *Barron's* assumes no responsibility for the future action of the securities selected by the prize-winning contestants.

MAINE BANKERS

The Maine Bankers Association has elected to its presidency Leon A. Dodge, president of the First National Bank, Damariscotta



BARRON'S
The National Financial Weekly

44 BROAD STREET
NEW YORK, N. Y.

BANKING'S DIGEST—AUGUST 1939

A Nationwide Report of Outstanding Speeches

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Briefly

If the Constitution is to be construed to mean what the majority at any given period in history wish it to mean, why a written Constitution and deliberate processes of amendment?

The new concept seems to be that it would be useless labor to seek to amend the Constitution in the method provided in the Constitution. Why amend when by adopting new interpretations, the same end can be accomplished? Such in this day seems to be the theory and the practice.

Reliance against the exercise of arbitrary power must be placed by the people henceforth in the legislative rather than in the judicial department of the national government.

Legislative independence and legislative wisdom are now America's almost sole reliance for the continuance of that security of the blessings of liberty for which the Constitution was framed and the Government of the United States of America created.—FRANK J. HOGAN, as President of the American Bar Association.

We are having something of a constitutional renaissance at this time—a rediscovery of the Constitution. We are really back to the Constitution.

I think it is proper to emphasize that the powers of government conferred by the framers were meant to be construed and applied in no parochial or petty sense. They were meant to be applied with courage and vision, for as John Marshall remarked, it is a Constitution "intended to endure for ages to come and consequently to be adapted to the various crises of human affairs." Marshall warned of the danger that constitutional powers might be eroded by petty or scholastic interpretation.—ROBERT H. JACKSON, U. S. Solicitor General.

It is apparently well known that Hitler is constantly in consultation with five astrologers who are reading to him the signs of the stars, and telling him what lessons those signs have to teach.

At the present time the advice of these wise men is that the climax of Hitler's career will come early in September, and that whatever he is to do to add to his fame must be done before that date. This may sound like nonsense, but it is the sort of nonsense which may easily give to modern civiliza-

tion another terrific shock.—NICHOLAS MURRAY BUTLER, President, Columbia University.

A LITTLE over 40 years ago the bankers were fighting for financial sanity against free silver. Now it seems we must fight against unlimited spending, taxes and debt. Then, as now, it was contended we needed a new plan to stabilize business in this country. We will hope that sanity will again prevail and business be revived.—F. C. FORREST, President, First National Bank, Pullman, Washington.

We might describe the profitable bank as one which renders a worthwhile service to its customers, at a fair profit to its stockholders after providing adequately for its personnel and after discharging its duty as a representative element in the public life of its community. And we might describe the most profitable bank as the bank which continues that performance for the longest period of time.—BEN E. YOUNG, Vice-president, The National Bank of Detroit.

If a bank is to become primarily an investment trust holding a portfolio of Government bonds for earning assets, what is to become of the staffs of trained and competent loaning officers, developed in times when lending money wisely and constructively was the banker's principal job? Somebody is going to loan consumer credit now and in the years to come. Whether you and I think well of it is less important than the fact that the consumer likes to buy on time payments. Moralizing on it doesn't get us very far. I personally think that there is a real opportunity for soundly trained credit officers in personal loan and installment departments, as well as a chance for additional earning assets in their banks.—J. M. BARKER, Vice-president, Sears, Roebuck & Company.

SINCE true venture-capital will not be harassed into action, any attempt to force the development of new enterprise is likely only to force into the risks of new enterprise the savings and deposits of people whose funds do not belong there. It is the function of savings institutions to keep savings out of risky adventures in business.—O. J. ARNOLD, President, Northwestern National Life Insurance Company of Minneapolis.

The Banker's Search for Profits

LEO T. CROWLEY, Chairman, FDIC, before the MICHIGAN BANKERS ASSOCIATION.

IN pursuing his search for profits the banker would do well, I believe, to apply to his problem the standards and the ingenuity he expects from his customers in other lines of business. In a general way, at least, the operations of banks closely resemble the operations of other businesses; the stock in trade is different, of course, but operating problems are much the same as those that confront the average business man and the means to their solution differ only in degree from those that we expect merchants and manufacturers to adopt.

The day is past when it can reasonably be thought undignified for a banker to solicit business. His shelves are full to overflowing of his stock in trade. Today's is definitely a buyer's market for the commodity he handles. First in any banker's program for increasing profits must come a comprehensive plan of advertising and of building good will, in order to search out potential buyers and acquaint them with the advantages of his commodity and his services. That banker is remiss indeed who fails to take this first and most indispensable step in fulfilling his responsibility to his community and to his stockholders.

As step number two, I commend the general tendency of the banking profession to analyze internal operations with a view towards stopping the losses banks long have suffered from general operations, particularly those of a service nature. The installation of a fair schedule of service charges, sufficient to reimburse a bank for services rendered, is a step that every bank should take, and one that customers cannot properly object to. Recent years have seen another innovation, sponsored by Federal legislation, which has materially benefited most banks. I refer to prohibition of payment of interest on demand deposits. Many banks have also been able, through analysis of their internal operating systems and substitution of modern accounting and operating systems, to pare operating expenses considerably.

There are still many localities and many banks in which these devices have not been fully utilized. On the other hand, instances have come to my attention in which the devices have been applied to the point of abuse. There are extremes

beyond which interest rates should not be lowered nor service charges raised. Because of the abundance of funds in their institutions bankers are inclined to be complacent today about withdrawals of savings and time deposits. There may well come a day, comparable to those of not so many years ago, when bankers would be willing to bid high for the funds they now let be withdrawn rather than pay a reasonable percentage for their use. Goodwill is a priceless banking asset. Its retention is well worth some small outlay in times like these in order to insure that it shall be ours when we move into a seller's market.

Having canvassed thoroughly the demand for traditional types of bank credit, and having put services on a stop-loss basis and general operations on as efficient and economical a basis as possible, the banker's next step is the search for new types of acceptable credit extension. Insured mortgage financing, the financing of receivables, installment paper, personal loans—all present profitable fields for the credit merchant. But they also present specialized risk problems that require expert handling and their novelty to most banks calls for extremely careful preliminary ventures into these fields. Term loans to businesses have been discussed during recent months as though they presented a new and a unique bank credit problem. Such is far from the case. The same considerations should govern extension of term loans as govern seasonal financing of inventories. Credit record and financial standing of the borrower, soundness of underlying collateral, and proper provisions for payment of interest and repayment of principal, all must be weighed. Length of maturity is only of secondary importance.

Significantly, all the steps I have enumerated as essential to a successful search for profits call for a generous endowment and a free use of the qualities of ingenuity and judgment as well as for application to the field of banking of those aggressive, promotional techniques that have so long been necessary in other businesses. The day is definitely past when the butcher, the baker, or the candlestick maker could open a bank and sit back to watch it run itself. Banks these days take "a heap of runnin'", and only the most capable and the most aggressive bankers can hope to see their institutions survive the pressure of competition, an enlightened public supervision, and relentless economic forces.

Making Small Accounts Profitable

JOHN J. DRISCOLL, JR., of Driscoll, Millet, & Co., Philadelphia, before the MISSISSIPPI BANKERS ASSOCIATION.

IN the establishment of service charges on small accounts, many banks so set their basis of charging that they eliminate any possible benefit that might accrue to them from the charge. They are so fearful of an unsatisfactory reaction that they give away something else to offset the charge the customer is asked to pay. By this I mean, they set their minimum balance requirements too low or allow too many items, sometimes both. At other times, they merely place a minimum balance and then allow an unlimited number of checks

to be drawn. The basis used should be one that will permit a bank making the charge to at least recover its cost and it seems only fair that it should also include a small profit. It is well to bear in mind that the basis of charging on small accounts may be something very hard to reconcile with actual cost figures used sometime later to analyze larger accounts.

It is our opinion that just as service charges have become common practice in the past five years, so will analysis charges on larger accounts become common practice in the next five years. So it would be well to bear this in mind when laying out a service charge plan on small accounts.

Your small account depositor invariably uses the bank only as a means of accumulating a fund from which he will disburse checks to his creditors and cash them for his own use. He has no need for a borrower's line and, therefore, will tend to carry only a sufficient balance to meet his needs and will rarely consider the fairness of this attitude to the bank until such time as you bring it to his attention.

There are a large number of bankers whose major objection to installing a service charge is that they may lose some business which is now small and unprofitable but which in years to come will be very desirable business. Allow me to give you two thoughts in this connection. First, the type of man who will grow and who will eventually carry a worthwhile account with your bank is invariably the type of man who will readily see the fairness of the charge you make on small accounts. Second, in the average small bank, the possible profit from these accounts which eventually will grow, might amount to \$500 a year after a period of time and to

accomplish this profit, the banker that reasons thus, will absorb a loss of \$500 a month for 10 years to earn an eventual profit of \$500 a year. It is simply the old story of allowing your judgment to be influenced by the exception rather than having it guided by the general rule.

Small accounts can be made profitable in only two ways. This may seem very blunt, but still I think we can all see it in a clearer way by facing the facts without too many decorations surrounding them. These two ways are, first, by increasing the balance to a point where it will pay its own way, and second, in the absence of this increased balance, by recovering the loss in the form of a charge irrespective of what you might see fit to call this charge. Continuing this same thought, the average small account will not increase its balance unless you penalize it by making a charge for not doing so. So, as a general statement, small accounts can only be made profitable by a service charge. Later, the balance may be increased, but this is a result of applying the charge.

Guaranteed Lending

LEONARD P. AYRES, Vice-president, Cleveland Trust Company, before THE GRADUATE SCHOOL OF BANKING.

IT is proposed to put huge additional sums of money into circulation by having private banks and public banks make great numbers of loans which are to be guaranteed by the government. It is planned to make loans for public projects as well as for private ones, and by doing the spending that way the need for having the money appropriated by the Congress can be avoided. The voting public is becoming increasingly aware that public spending has got entirely out of control, and this new set of plans for guaranteed lending is a most ingenious political device designed to circumvent public opposition to spending.

This new movement for lending our way out of depression has gained great momentum without attracting much public attention. The newspapers have given it little space. Probably we have seldom had in our history so dangerous an instance of the failure of our people to pay attention to a development that gravely threatens our whole national future.

There appear to be three chief unfavorable economic implications that are inherent in the projects for insuring loans made to small businesses. The first is that these loans are far more hazardous than insured loans secured by new building construction. The second consideration is that insured loans will not be very helpful as a recovery measure because they will not bring much aid to the heavy industries where unemployment is most serious. The third unfavorable economic consideration is that insured loans for business ventures that cannot now secure bank credit really constitute a form of Government subsidy which will create serious new competition for small businesses now in successful operation.

Bankers are now seeking loans with a degree of eagerness and energy without precedent in the history of banking, and these projects for insured loans propose to grant credit for projects which bankers do not consider safe risks even under the present pressure to find employment for idle funds. Unless the credit judgment of thousands of bankers has been wrong about these projects, it must be expected that a large proportion of the proposed insured loans will later on become parts of the liabilities of insolvent business.

Let Us Retrench

GEORGE LETTERHOUSE, Vice-president and Trust Officer, Commercial Trust Company of New Jersey, before the New Jersey Bankers Association as President.

THE real cause of the depression now in its 10th year is the Government theory of deficit spending, the ultra-modern economic theory of buying prosperity by borrowing and spending. This theory has been tried at a cost of \$25,000,000,000 and six precious years, and has produced what? Over 6,000,000 are now on relief, over 2,000,000 on WPA, and over 9,000,000 unemployed. Lack of confidence, restrictive legislation, the heavy hand of the tax collector who now takes more than 22 cents out of every dollar earned, uncertain labor conditions under the Wagner Act, uncertainty as to governmental actions from day to day, have all contributed to the present low estate to which business has fallen.

I cannot agree that deficit spending will keep the unemployed from want, will supply the special needs of agriculture, will provide economic security for the aged, and that it is the great cureall for our economic ills. Rather, I believe there is no progress without effort, no security without struggle, that the easy way is seldom the safe way.

Let us retrench before it is too late. Continual spending beyond income leads to bankruptcy or repudiation.

A Highway to Insolvency

PAUL F. CADMAN, President, American Research Foundation, San Francisco, before THE GRADUATE SCHOOL OF BANKING.

THREE is a frank acknowledgment that the Government's policy of spending borrowed money is to continue indefinitely. The latest theory in support of this policy is that if the investors will not invest by their own initiative the Government must invest for them.

By implication there is assent to the theory that we have reached the end of the expansion period in our economy and that future investment will be largely in the maintenance of the present capital goods industries.

The critics of the enterprise system keep insisting that the "frontier" days are over and that our economy has finally matured. By maturity is meant a kind of "slowing down" which is closely akin to stagnation.

The truth is that the capital strike was not engineered by any person or group. The investors did not convene and agree to wait. Capital waits because it has no confidence in the present opportunities for employment. It waits because it knows that the profit system is under heavy and official attack.

It waits because it knows that deficit financing is only deferred taxation. It waits because it knows that if the Government intends to pay its debts it must lay the burden upon enterprise.

We are all too apt to forget that human needs and desires are almost unlimited. That even though we enjoy a high standard of living we have not begun to touch the peak in comforts and conveniences. The chemical industries have shown the way to immense opportunities in promotion and production. Air conditioning and television wait largely upon the possibility of mass production. Science and invention are more active than at any time in the modern world. A whole group of proven commodities wait only the restoration of confidence to go into production.

Deficit financing and the burdens it entails is actually destroying both investment and employment opportunities. To call Government expenditures investment is to admit that there has been a forced levy on capital. Every dollar borrowed is a burden upon every dollar now saved and invested. If it is the intention of the Government to break the capital strike by forced loans which are in effect a form of confiscation, it should declare itself and make the methods clear to all who stand to share in the losses.

The great gap in the reasoning in favor of spending borrowed money is the unwillingness to recognize that national income is inadequate to meet the cost and that five years of outpouring has not increased the national income appreciably in terms of real wealth.

It is time to call deficit financing by its real names: It is a capital levy, a redistribution of wealth, a barrier to recovery, and a highway to insolvency.

A Dearth of Risk Money

PRESTON DELANO, Comptroller of the Currency, before the NORTH CAROLINA BANKERS ASSOCIATION.

THE Comptroller's Office is concerned these days because there have been allegations that its examiners, through their influence upon national banks, are responsible for an undue constriction of industrial credit. I do not think this is so. I think such charges and the corollary assertion that the banks are refusing legitimate credit to industry are the result of confusion of mind as to the true nature of the banking function.

Of course, I cannot speak with authority on the question whether all banks or even all national banks are taking full advantage of all their opportunities to make sound loans. In the Comptroller's Office we deal officially with loans that are made, not with applications that are turned down. But I have had occasion to analyze some complaints of refusal of credit and I have found that the complainants generally didn't make any showing of eligibility for bank loans, but instead revealed their need or their desire for additional risk capital. They were asking, in fact, not credit, but investment in their businesses.

Answering an inquiry addressed to me during a meeting of industrial leaders in Washington recently, I took the liberty of pointing out to them that, in my judgment, so far as there is a dearth of funds available for business and industry today it is a dearth of risk or venturesome money and not a dearth of bank credit. I say this with the qualification that there are naturally different kinds and tempera-

ments of bankers, just as there are different kinds of business men. Some, of course, will be more alert than others to take full advantage of their opportunities to give service to their communities and to forward the interests of their banks within the limitations of sound banking.

We need not be astonished at this lack of venturesome capital. It is the legitimate result of these last 25 years of war, speculation, depression and the world disorder created by the present threats of unreasoning force. And I suppose we should not be astonished when there results an attempt to have banks enter that field in order that someone may take up the burden. But here is an outpost which should be held. The risk sector of our economy is not a proper place for the employment of deposit money. The providing of venturesome capital is a very necessary function but it is a job for the entrepreneur, not the banker. The Office of the Comptroller of the Currency is opposed to such speculative use of banking funds. But lest we be misunderstood it should be added that the Office of the Comptroller of the Currency is deeply interested that every consideration be given to applications for credit to the end that no proposal be denied a hearing and no proper request be refused.

There is another matter under current discussion concerning which we of the Comptroller's Office feel strongly. We approach it with some diffidence. In a way it is important as a symbol of something fundamental in the organization of American banking. I refer to my own office of the Comptroller of the Currency and the proposal to abolish it, with transfer of its functions to other Government agencies.

It is always difficult to be disinterested in such a situation. I doubt if I can be entirely so in this instance. However, my own connection with the Office is so recent that I may with propriety discuss certain features of the proposal which seem to me significant. This Office is the oldest supervising agency of the Federal Government. During its 76 years of existence it has evolved methods and practices which give it dignity and tradition. It has an efficient staff and a valuable *esprit de corps*. It would be difficult to transfer these

very real assets to other agencies and the abolition of the Office would accomplish no economy or simplification of administration to compensate for the loss.

It seems clear to me that the extinction of the Comptroller's Office would be a distinct blow to the prestige of the national banks and might even imperil the existence of our dual banking system. In my judgment it would be a backward step for this Office and its staff not to be preserved in its present form.

Four Things to Be Done

PHILIP A. BENSON, President, American Bankers Association, before the MICHIGAN BANKERS ASSOCIATION.

BUSINESS will function and will again produce prosperity if it is given a chance. To be specific, let me suggest several things that would contribute to that desired end.

First, we must eliminate tax inequalities; abandon forms of taxation that are unreasonably burdensome. Progress is being made in this direction both through the proposed elimination of the undistributed profits tax and the proposal to retain Social Security taxes at their present level rather than to increase them during the next few years.

Second, there must be a reduction in government spending—national, state, and local. Last year taxes of all kinds took over 13 billions of dollars out of our national income; nearly one-quarter of that income. Are these taxes to rise so that we pay the tax gatherer a greater proportion of our income? We

will have to do this unless the people of this country realize that government is costing too much; that it is costing more than they can afford and until there is a demand for reduced government spending.

Third, there should be no Government competition with business. We recognize that government must act as an umpire. We recognize that certain lines of business charged with a public interest must be controlled and regulated, but we do not believe that government should be in business in competition with its citizens, and therefore such competition should cease.

Fourth, encouragement must be given to private capital to engage in new ventures and the extension of existing industries. Risk capital flourishes in an atmosphere of confidence, not where hostility exists. It will venture if there is an expectation of a profit and when its right to seek a profit is recognized.

Hoosier Bankers

ROBERT H. MYERS, Vice-president, Merchants National Bank and Merchants Trust Company, Muncie, Indiana, before the UTAH BANKERS ASSOCIATION.

THE 1939 research report of the Indiana Bankers Association is devoted to bank personnel. We thought we might as well put ourselves under the microscope.

We learned some interesting things. Twenty-five per cent of the bank officers included in the survey are 60 years of age or over. Many of these persons undoubtedly will have to be replaced within the next few years. We all know that there is a low "turn-over" among bank officers, but it may be accelerated in the years just ahead, in Indiana at least. It's part of our job to see that those replacements are trained and ready.

The average bank officer in Indiana is a high school graduate who has not attended college. Only about 16 per cent are college graduates, and less than 40 per cent have had as much as one year of college. As a matter of fact, between 20 per cent and 25 per cent of the officers were not graduated from high school, but almost one-third of them did attend business college. Less than 20 per cent, however, have completed an evening or correspondence course since entering the bank where they are now employed.

A popular illusion was dispelled when we learned that four out of five officers are not related to another officer or director.

Another surprise, and this one may not be so pleasing, is that less than half of the officers started in the bank where they are now employed at a position below the rank of officer. In other words, more than half of them started as officers. Also, many bank officers started in their present positions without previous experience in that bank.

The average salary received by the 497 Indiana bank officers surveyed is only \$1,800 per year. (I hope you won't think I'm bragging.) They have served their present employers an average of 15 years and have held their present jobs for an average of 7 years.

Surveying the bank employees, other than officers, we learned that they are about equally divided between men and women. These employees are young, their average age being only 30 years. Most of them are high school graduates who have not had any college training, although many of them have attended business college. Very few of them are related to officers or directors. Their work experience consists largely of their service in the bank where they are now employed, the average length of that service being 5 years. Salaries of bank employees average less than \$1,200 per year. (I cough apologetically.)

We did learn that nine Indiana bank presidents, among the 93 investigated, began at the bottom in their own banks, as messengers or bookkeepers. I don't know whether you would consider that a high or a low percentage; our survey

did not disclose how many bank presidents started as apprentices in *other* banks than the ones in which they now work, but we have reason to believe that a considerable number of them did. We feel that the evidence is sufficient to prove the truth of the old American idea that it is possible to start at the bottom and reach the top.

Moreover, as banking develops into a more settled profession, it may be increasingly necessary for executive officers to "grow up in the business". I'm presupposing, of course, a

reasonable aptitude and better-than-minimum educational preparation for the work.

The statement is frequently heard that banks are no better than the men and women who run them. Another one often heard, is that the future of banking depends upon bankers. It occurs to me that it might be well for us to appraise the human assets in banking with the same care that we devote to our physical resources. I'm inclined to think the Hoosier bankers are not wasting time in their research activities.

A Governor on the Engine

WILLIAM T. NARDIN, Chairman of the Board, Federal Reserve Bank of St. Louis, before the ARKANSAS BANKERS ASSOCIATION.

INSTEAD of pining for the good old times; instead of assuming that what once caused depressions still causes them, that what once cured them will still cure them, even though the cause may now be different, wouldn't it be well for us to give more careful thought than has as yet been given to the question of how much the world has changed since other panics were caused and cured? It might be discovered that under our present industrial organization it may be dangerous for so complicated and ponderous a machine to be allowed to run at so reckless a rate of speed as our wholly unrestrained rugged individualism is capable of generating suddenly. We might discover that safer, more orderly and more wholesome progress could probably be made through the years if there were a governor on the engine.

And in this connection we might get some light on the need for a governor on the engine to the end of preventing the wreck of the machine with consequent depressions, if we gave very serious and thoughtful attention to some very definite and pertinent facts which are likely to influence the progress of our recovery from depressions. I venture to suggest an example. It is true, I think, that more people were thrown out of employment in industrial enterprise in our present great depression than were engaged in all industrial enterprise two generations ago. More pertinent and significant still is the fact that a very great proportion of those people was engaged, directly and indirectly, in the production and distribution of articles which were wholly unknown two generations ago. And by the same token stern necessity did not compel the resumption of buying of those articles within a few months at such a rate as to restore our industrial production to normal volume and bring back full employment of labor and full purchasing power.

We have had much talk from economists, industrialists and theorists about how the reduction of inventories and the expenditure of millions of Government money on WPA and other projects would start the wheels of industry turning and bring about business revival. That such activity is helpful in relieving distress none can deny. But that it can carry us far toward prosperity no one who properly analyzes the situation can believe. The wage of the WPA worker is a bare subsistence wage. In many communities the pressure is strong, and not wholly without reason, to have WPA incomes supplemented by public relief. The income of these workers, at best, enables them to purchase only food, fuel,

shelter and the bare necessities in clothing. It does not give them the ability to purchase those articles of modern comfort and convenience, in the production of which so great a part of our modern industry is normally engaged.

It is indeed a changed world in which we now live. It is obviously futile for us to let our thinking on its problems run in old grooves, or to attempt to solve the problems by old methods. Sound reason suggests that. Nine years of tragic experience proves it.

May we not in such a changed world, instead of damning the Government for the improvident granting of relief, for priming of the pump and failing to balance the budget, better be giving our attention to what needs to be done to prevent such catastrophe as came upon us out of our world of no relief, no pump priming and a well-balanced budget in 1929?

Might we not temper our horror of regimentation if we faced that question and inquired calmly and sanely and seriously whether some modification of our one-time practice of rugged individualism in our industrial and financial activity may not now be needed to rescue us and protect us from such disaster?

Can we safely subscribe to a policy of rugged individualism when one segment of our complicated industrial-financial mechanism may throw the whole machine out of adjustment and balance, with such tragic consequences as resulted from the rugged individualism in the stock market operations culminating in 1929? Can we safely rely on the so-called natural laws of economics to cure our ills when it is obvious that the free operation of those laws would reduce 40 per cent of our population to the standard of living of half a century ago, a sure result of the abandonment of our agriculture to the unrestricted operation of the law of supply and demand?

These questions we need seriously to ponder upon. Before we condemn the Government for measures adopted, we need to face the necessity for some measures and be prepared to offer more effective measures than those now in use. Before we damn all Government regulation by use of the prejudicial term "regimentation," we need to inquire most earnestly and seriously whether we can survive and prosper without the prevention of such practices as destroy our prosperity. If we can ourselves prevent them, we should be letting the public know that we can and how we are going to do it. If we need the cooperation or sanction of the Government in order to prevent them, we should be proposing the policy which we need to have the Government adopt. If we would avoid Government regulation, we need to show how we are going to regulate ourselves.

Insuring Borrowers' Lives

ROBERT W. WATSON, President, The Morris Plan Insurance Society of New York, before the BANKERS ASSOCIATION FOR CONSUMER CREDIT.

THE idea of insurance on the life of a debtor in favor of the creditor is the result of an operating necessity that became apparent some six or seven years after the founding of the Morris Plan to supply consumer credit through banking channels.

It is significant that the oldest and largest institutions in this field, both among commercial banks and industrial banks, have adopted this type of insurance. Their experience has shown that as a matter of public relations alone, apart from the direct protection to the bank, this insurance is indispensable.

To foster the successful operation of a personal loan department, it is necessary, for one thing, to know the reactions of an average borrower when he applies for a small loan. Upon making his first application he is likely to feel much the same reluctance as he would in borrowing money from a friend. If the application routine is cut and dried and says, in effect, "We'll lend you the money—just give us enough assurance that we can get it out of you or your co-makers if we have to"—the prospective borrower goes away with a negative attitude toward the transaction and toward the institution itself. He will make his payments grudgingly and talk down the loan service upon every opportunity.

At the time of application for a loan, the borrower should be given some concrete evidence that the loan department is concerned with human relations as well as repayments and security.

The second concern of the prospective borrower is the difficulty of obtaining endorsers or co-makers on his note. This, in my opinion, is one of the most important problems in the management of a personal loan department. Usually the co-maker is a friend who is convinced that the borrower will make every effort to repay the loan and "if unforeseen circumstances should interfere" that he will eventually repay the co-maker for whatever assessment the loan department may make upon him. There is still, however, as far as the co-maker is concerned, the unpredictable risk that the borrower may die before the loan is retired. Some of you may already be discouraged by the large percentage of applications that are issued by your department which are never completed. Much of the profit of any personal loan department depends on its success in keeping this factor to an absolute minimum.

The most important means in achieving this is to insure the life of the borrower. But there are other considerations. For instance, the forms to be filled out by the borrower and the co-makers should be as brief and free from technical language and as easily understandable as it is humanly possible to make them. A good many laymen, particularly in making their first applications, have an unreasoning dislike for any kind of legal form. The more complicated it is the more uneasy they become.

Another point in overcoming the difficulty of obtaining co-makers is the need of perfecting a very clear and courteous explanation on the part of the loan clerk. This seems so obvious that it is often overlooked. But I understand that some institutions have gone to the length of writing out the logical sequence of steps in explaining a personal loan to a

How the Plan Works

THE details of the plan, as now used, might be briefly summed up as follows:

The same policy is used no matter what the size of the personal loan department. No minimum volume is required.

The name of the insurance company does not enter into the bank's transaction with the borrower. In this way the bank alone benefits from the good will which the insurance creates.

There is no requirement that every borrower be insured; the bank, or the borrower himself, decides that. However, experience has shown that even when a bank offers—but does not require—insurance protection, 90 per cent of all borrowers request it.

There is a flat premium for each \$100 of insured loans. As soon as the premium is received, it is recalculated upon the basis of current mortality records and a refund is made.

When the plan is in operation, each insured borrower receives a small certificate at the time the loan is made. Each Saturday the bank reports the loans insured during that week and sends one check for the total amount of the premiums. These reports are audited and, usually upon the same day they are received, our refund check is mailed to the bank.

first-time borrower. Remember, it is the borrower who in turn becomes the salesman when he goes out to get co-signers. *If he hears a clear, concise sales talk there is a better chance that he will give one.*

Another important reason, and perhaps the most obvious one for insuring the lives of borrowers, is the actual mortality among borrowers. Our records over a period of 22 years show that the average mortality rate has been slightly in excess of 1 per cent per year. In other words, on the basis of this experience any bank may expect 11 deaths among every one thousand borrowers in the first year of their loans. As a matter of fact, in the first year or two after the establishment of a personal loan department, when volume is low and the decisions as to acceptable risks are still in the formative stage, it is not unusual for a bank to report very few mortalities or none at all among its borrowers. When this has been the case a banker very properly often asks what the need for this insurance is. Our answer is simply that according to our experience it is reasonable to assume that the average mortality rate will eventually catch up with his borrowers. However, the other reasons for this protection often carry more immediate conviction. A banker quickly realizes that it is an actual money loss to his institution when he loses the good will of co-makers who are unwillingly pressed to make good on the note of a deceased friend.

The manner of writing these policies is now much more simplified than it was 20 years ago. Through years of practical experience, all unnecessary detail has been eliminated. There is only one master policy for each bank. This one policy provides coverage for any type of amortized loan to any individual under 60 years of age. The individual borrower need not sign any application, and there are no questions for him to answer. No medical examination is required except on single loans in excess of \$3,500.

A Change in Emphasis

O. HOWARD WOLFE, Cashier, Philadelphia National Bank, before the CONNECTICUT BANKERS ASSOCIATION.

If we put more of the emphasis of bank management on the fellow who knows how to run a good bank, and lessen the emphasis and the expense on how to get 5 per cent for some of the loans we shouldn't have made in the first place, I think banking will begin to go places.

Nearly all of your expenses come out of your liability side, and your income out of your asset side; but with deposits going up and your expenses mounting, with assets going down and income being reduced, something has got to be done about it.

You've got to change the emphasis. Heretofore we've run our banks, managed our banks from the loan and discount point of view, and the man who operated your bank was

just another employee. That, I submit, has got to change.

Somebody asked me, some years ago, why so many banks in New York, Chicago and other places had so many vice-presidents, and this answer I made: Take a bank having 15 vice-presidents—three make loans and the other 12 try to get them back.

Do you realize what you're doing? Your expenses, the bulk of your money, is on managerial fees, and you're giving almost the entire power and authority to the group of bank-managing officers who are concerned with this diminishing side of your statement; you are paying little or no attention to the men who are operating your bank.

Mark my words, the day is coming when every bank management is going to shift over to the practical side. Pay more attention, more respect, more consideration to the men today who are operating your banks.

Too Many Charlie McCarthys

ALEXANDER WALL, Secretary, Robert Morris Associates, before the GEORGIA BANKERS ASSOCIATION.

NEVER before, as far as I know my economic history, has this country worked out of a depression except through the mentality of the American business man. The American business man and the American banker have met every previous depression and solved it and put the country back to work.

I don't know whether we have turned into a nation of sniveling incompetents who need to have somebody else do their thinking for them, or whether the thinking is being thrust upon us. I am not attempting to answer that question. But I do know that too many of us don't think.

You can try that out yourself some morning if you want to. Read in the newspaper at your own breakfast table something in which a leading individual—political, financial, medical, an engineer, or what have you—is being quoted. When you get down town, say to a man, "What do you

think about this?" And you know very well he hasn't had any time to think; you haven't been in contact with the information for more than 15 or 20 minutes yourself. He will immediately begin to respond, "I think this," "I think that," "I think something else"—and he hasn't thought at all; he hasn't had time to think. He believes, because he is a Charlie McCarthy dangling on the knee of economic theorists, that they must know, because he is afraid to think that he can think it out himself.

Now just as long as we in the banking business allow any professional economist to do our thinking for us, just as long as we refuse to assume our responsibility to make business work ourselves, that long will we be on the spot and be money-changers. Just as soon as we begin to tackle the problems as a unit—by that I mean a trade unit, a guild unit, a group of people who have to do with the most effective force in business activity—just as soon as we begin ourselves to manipulate that force, we will be doing what we ought to do.

Reindeer for Santa Claus

CLARIS ADAMS, President, Ohio State Life Insurance Company, before the OHIO BANKERS ASSOCIATION.

PLANNED economy, artificial manipulation of interest rates, governmental competition in the investment field, cost our policyholders hundreds of millions more. Due largely to these destructive factors, or in part at least, the life insurance companies of the United States earned a full $1\frac{1}{2}$ per cent. less on trust funds invested for their policyholders than they did 10 years ago. This represents a loss on the basis of their present assets of \$420,000,000 a year.

Interest earnings are an integral part of the life insurance process. Diminished returns result inevitably in higher rates. The loss in interest represents a difference of more than \$3.50 a thousand on every dollar of life insurance now outstanding. This means an increase in rates of almost $12\frac{1}{2}$ per cent. to 65 million people who are saving through self-denial and sacrifice against the hazard of untimely death and their own necessities in old age.

This is part of the bill which the public is paying for manipulated money and governmental largess. The Government may seem to be Santa Claus, but to the extent of \$450 a year the policyholders of life insurance companies are playing the part of overburdened reindeer for Santa Claus.

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The Extension of Government

EVERETT DEAN MARTIN, Professor of Social Philosophy, Claremont Colleges, Claremont, California, before the CALIFORNIA BANKERS ASSOCIATION.

THERE is a psychological law of government. The law is this: all government tends to expand itself at the expense of the lives, liberties and property of the members of society. This law applies to all types of government, democracy included.

Government will respect its own people only when it is obliged to do so. This is why "eternal vigilance is the price of liberty". It is why our fathers were so careful to devise a constitution granting limited powers to office holders. This is furthermore one reason why parliaments for which most planners have little regard, came into existence. Men know that to keep government just and free they must keep it small. Give it favors to grant and it will have its favorites prospering at the expense of its "forgotten men". Hence to keep government small the citizens must keep it poor. Thus Montesquieu said that parsimony is a necessary republican virtue.

Our British predecessors knew this, and out of it issued the quarrel between the crown and parliament. English liberty was preserved because Englishmen insisted that taxes be voted by their own representatives in the House of Commons. Parliament was a device whereby the public could pull the purse strings on government spending. Hence it was a check on the expansion of government and a blocking of the road to despotism.

But suppose a people begin to think of government as a storehouse of plenty and look to it for a plan which will satisfy all demands. Suppose in the words of Dostoyevski, Grand Inquisitor, they cry, "There is no freedom, there is only hunger!" Then it becomes possible for government to expand itself, tap new sources of revenue, get more politicians on the public pay roll, build up a party machine large enough to keep a party in power and crush its rivals. Then it becomes possible for a government to corrupt the public with the public's own money. For then public sentiment, instead of pulling the purse strings on government to check its expansion, runs in the same direction as the politicians' desire for more revenue and greater power. Then there is no popular check against tyranny.

There is another law of government, the popular ignoring of which is a cause of what is happening in Continental Europe—and may happen elsewhere. That is, as government extends itself beyond the minimum necessary to preserve life, property, peace and liberty, its extension will at every step disregard the consent of the governed, for government

is coercive by its very nature. Hence disregard for mind itself. So it may be said as government is extended the progress of society declines. The historical arguments in support of this truth are overwhelming both in ancient times and in our own time. The outstanding example in the world today is Germany.

SOME OBSERVATIONS

CERTAIN observations are to be made:

1. Governments are eating up the patrimony of society. The standard of living is falling the world over, wealth is exhausted in non-productive activities, and in preparation for war, new capital investment is everywhere discouraged. Government restrictions on trade, tariffs, and bureaucratic regulations have done much to bring about the present economic depression. Government efforts to cushion the depression have only prolonged it and increased the number of unemployed who must be fed out of industry already overburdened by taxes and lacking in confidence in the future.

2. Governments are destroying what little world order has been achieved since the time of Hugo Grotius. The international fellowships of industry and culture are broken up by political nationalism and by the necessity of all planned societies to put their people in military uniform and on a war footing.

3. Governments are destroying the liberties of the modern world. Most obvious in the totalitarian states, where all constitutional guarantees of personal rights are gone, the tendency reaches also into the democratic states. It is unthinkable that any government with power to control the economic life of a nation will or can stop short of control of opinion and speech. Hence there must follow censorship, concentration camps, the "liquidation" of minorities.

4. Governments are destroying the culture of the modern world. In Central Europe there is return to persecution, and to propaganda which is lacking in respect for truth. Elsewhere, even in the democracies, there is going on a slow process of destroying those classes in society which in all historic time have created our culture, advanced learning and tried to preserve respect for the moral values of civilization. With the extension of government, chief concern is given to undifferentiated man, mass man; hence worldwide decline in appreciation of human worth or reverence for excellence. As government is extended, economic scarcity and democratization of subsidies go hand in hand with it. As these prevail, the economic interest reigns supreme. A crass utilitarianism, mingled with the cynicism of radical politics, supplants respect for the human spirit.

On Our Own Feet

B. P. ALLEN, Vice-president, First National Bank, Wabash, Indiana, before the GEORGIA BANKERS ASSOCIATION.

If we believe in a free and independent banking system, let's stand on our own feet, plan to withstand most any shock of the future and, above all, avoid being that type of creature that shouts about his inalienable rights and then runs to the Government when he falls into the fiery furnace of his own recklessness and lack of endeavor to studiously solve his own problems. If we wish to be free of governmental interference, isn't it up to us to live as bankers who do not need governmental aid?

Claims on Net Earnings

J. FORBES CAMPBELL, Senior Research Assistant, FDIC, before the WISCONSIN BANKERS ASSOCIATION BANKING CONFERENCE.

BECAUSE of the variables affecting gross operating income and total operating expenses, net earnings itself is a variable figure. It is demonstrably true, however, that claims upon net earnings are comparatively constant. The claims to which I refer are principally of two kinds:

First, the need to absorb normal loss expectancy in a bank's earnings assets and to provide adequate capital cushions as protection against abnormal or temporary swings in asset values; and second, to provide a return upon the investment of the bank's owners.

Reference to the aggregate earnings figure of insured banks for the past several years indicates that the constancy, the persistence, the inevitability of these claims is not generally realized. We have admitted that net earnings itself is a variable. The record supports our admission. The ratio of net earnings per \$100 of total assets for all insured banks in 1934 was 74 cents. By 1937, it stood at \$1.22, a range during the four years of 48 cents. We deny that the figures of net profits, whether before or after dividends, should vary more proportionately than the figures for net earnings. The record casts doubt on the validity of our denial. The rate of net profits before dividends per \$100 of total assets for all insured banks was minus \$1.86 in 1934. By 1937 it had risen to plus 59 cents, a range during the period of \$2.45, or more than five times the change in the net earnings ratio. The rates for net profits after dividends showed nearly as great a range.

It is our belief that bank managers and supervisory authorities can do much to narrow the vast difference in range between the net earnings and net profits ratios—in other words, to stabilize the operations of our banks. The experience of hundreds of sound and prosperous institutions gives foundation to that belief.

Bankers' treatment of losses and depreciation that normally result from the business of credit extension is a phenomenon of our banking history. Properly handled, these claims upon net earnings are the equivalent of operating expenses. As an example, I can point to the inclusion of regular and reasonable depreciation upon banking house, furniture and fixtures among operating expenses in the FDIC earnings report form. Disregarded, these claims have ruined thousands of banks.

Provision for losses and depreciation of this type is simple and indispensable. It involves recognition of these facts:

1. Income on earning assets is partly a premium against risk assumed. Every banker assesses his interest rate on the basis of credit record and probable ability to keep an obligation current and sound.

2. The loss record of various types of assets can be determined. The bank's own records and the banker's knowledge of business trends in his community make development of average loss ratios comparatively easy.

3. That part of income on earnings assets which is meant to be a premium against risk assumed should be exclusively used to absorb losses resulting from realization of risk. Prompt acknowledgment and elimination of known losses and the establishment of valuation reserves to care for losses that will arise as a by-product of routine banking business are essential tenets of good bank managers.

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Strong Banks and Sound Bankers

LEWIS E. PIERSON, Chairman, Board of Regents, The Graduate School of Banking, and Honorary Chairman, Irving Trust Company, New York, before the School's CLASS OF 1939.

WE have all heard it said in recent years that banking has no future, that banking is no field for a young, ambitious, and capable individual, and that the golden age of banking is behind—not ahead—of us. With that philos-

ophy of defeatism I have no sympathy whatsoever.

I have been in the banking business for over 50 years. Just stop for a moment and consider what violent changes have occurred in that period and what a transformation has taken place in American business and banking. There have been many periods of bad business and several discouragingly severe depressions. Businesses, once prosperous, have disappeared; individual industries have

grown to maturity and declined; we have had great waves of population out of our cities and then back into them; we have experienced the most devastating war of all time, with its inevitable sequel of distress; we have had a great inflation of commodity prices and one of the most serious deflations that a nation has ever experienced; we have had booms in real estate, in commodity prices, in bond prices, in stock prices, and in fact in almost everything. But throughout it all, American banking has survived and there has always been room for strong banks and plenty of opportunity for sound bankers.

During the period of my experience we have built a new legal framework of banking, we have adapted ourselves to a new Federal Reserve System which has been subject to almost constant change, and we have seen the growth of new credit agencies which compete with our banks. It has been a hectic period. Let no one tell you that those of us who have lived through it have had an easy time of it. Not once, but many times, I have heard the prophets of disaster say that banking was finished, but always the answer was the same. Banks have continued their indispensable services.

I have been in banking so long that I know better than to try to draw for you a picture of what the future has in store. But I am convinced that you who have shown that you are willing to stake your time and your effort on this field of endeavor will not regret it.

I have no sympathy with those who say that the era of individual opportunity is behind us. With the tremendous momentum of scientific research in this nation of ours, we must be on the threshold of great scientific advances which cannot help but turn out countless opportunities for venturesome capital and farsighted businessmen. And I have great confidence that our young business leaders through hard work and earnest application of their talents will continue to serve the nation well in translating the progress of industry and business into a higher standard of living for us all, and, that, as in the past, the banking system will continue to play an important role in the nation's economy.

I am confident that the future of American banking is to be found in strong banks and sound bankers—and this school cannot help but have made a great contribution to these worthwhile objectives.

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The Basic Banking Problem

S. N. PICKARD, President, National Manufacturers Bank, Neenah, Wisc., before the NORTH DAKOTA BANKERS ASSOCIATION.

THE basic banking problem is, of course, that of earnings. It is true that banks must make a profit to survive but I doubt if the public is interested in our earning problem. I doubt if the public cares particularly whether the railroads, the banks or department stores make money. Some people probably even hope they will not, and others believe the demagogue who claims they are rolling in money anyway. People are far more concerned about how we, as bankers, can increase *their* earnings and make *their* money go farther. Certainly, here is a tremendous opportunity to do a job in giving the correct information and data to all our bank customers on the absolute necessity for good bank earnings.

Interest rates are a very important factor in our earning problem. This problem has two sides: the rate paid on time deposits and the rate collected on loans and investments. The solution would not be difficult if we knew when loans would increase, when money rates would stiffen, and what will happen to the bond portfolio when the price of money goes up. The problem is a serious one and has its paradoxical phases but to it I want to add several important public relations aspects.

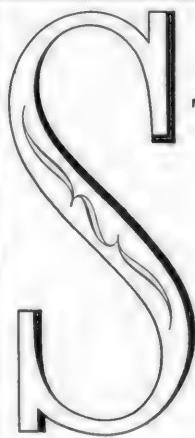
Although rate reductions on time deposits are both warranted and necessary, and are quite generally accepted by customers (especially when the banks concerned inform customers as to their necessity) it must be recognized that such reductions do not encourage the opening of new accounts.

In your own state of North Dakota, for example, the number of savings depositors, according to a compilation of the Savings Division of the American Bankers Association, has declined from 104,168 in 1928 to 53,194 in 1938, a decline of 48 per cent. The decline for the country as a whole is over 10,000,000 customers during a period when the population increased over 9,000,000. While the depression problems of business, industry, and agriculture are no doubt basic causes of this condition, we must realize that "baby bonds," to mention only one of many forms of competition, have been purchased by more than a million people, 72 per cent of whom are repeat purchasers.

As to rising rates on loans and investments, there are likewise attitudes prevailing in different areas of public opinion which have an important bearing. "We insist upon continuance of the three and one-half percent interest rate on farm mortgages, believing that the general money market does not justify a higher rate of interest on term loans" was the resolution adopted at the annual convention of the American Farm Bureau Federation, in December 1936, as quoted in "The Earning Power of Banks".

How great is the need for the masses to know a few economic truths. But who is to provide and disseminate these facts if bankers themselves sit placidly by and say nothing?

Service charges, as you know, have aided bank earnings but like interest reductions on time deposits do not stimulate new business. Consequently, customer and public education must be carried on lest the charges solve an immediate earning problem only to create a more expensive problem in the future.



STATEMENT OF CONDITION · JUNE 30, 1939

RESOURCES

Cash and Due from Banks	. . . . .	\$64,811,710.91
U. S. Government Securities	. . . . .	65,437,935.23
State, Municipal Bonds, Other Securities	. . . . .	19,490,894.40
Stock in Federal Reserve Bank	. . . . .	660,000.00
Bank Premises, Main Office and Branches	. . . . .	4,478,698.73
Customers' Liability under Letters of Credit and Acceptances	. . . . .	3,491,652.05
Other Assets	. . . . .	988,647.33
Loans and Discounts	. . . . .	68,669,481.74
TOTAL		\$228,029,020.39

LIABILITIES

Capital	. . . . .	\$18,000,000.00
Preferred*	. . . . .	\$8,000,000.00
Common	. . . . .	10,000,000.00
Surplus	. . . . .	4,090,000.00
Undivided Profits	. . . . .	2,218,342.32
Reserves for Dividends, Interest, Contingencies	. . . . .	1,723,955.87
Letters of Credit and Acceptances	. . . . .	3,499,487.42
Other Liabilities	. . . . .	371,715.76
Deposits	. . . . .	198,125,519.02
TOTAL		\$228,029,020.39

*2,000,000 shares, par value \$4 per share, retrievable at issue price of \$10 per share. Current dividend rate 3½% on subscription price.

ANGLO CALIFORNIA NATIONAL BANK

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American Brass Company.....	91	Lawrence Warehouse Company.....	92
American Express Company.....	89	Live Stock National Bank.....	64
American National Bank & Trust Company.....	6		
American Surety Company.....	57	Manufacturers Trust Company.....	62
Anglo California National Bank.....	93	Marchant Calculating Machine Company.....	13
Anthracite Industries, Inc.....	48	Maryland Casualty Company.....	7
Bank of America N. T. & S. A.....	72	Maryland Trust Company.....	9
Barron's.....	80	George S. May Company.....	Cover IV
Burroughs Adding Machine Company.....	65	Mercantile-Commerce Bank and Trust Company.....	67
Chase National Bank.....	95	Minneapolis-Moline Power Implement Company.....	73
Citizens National Trust & Savings Bank of Los Angeles.....	74	Moody's Investors Service.....	16
Cleveland Trust Company.....	77		
Commercial Credit Company.....	75	National Bank of Detroit.....	58
Commercial Investment Trust, Inc.....	6	National Cash Register Company.....	15
Continental Illinois National Bank and Trust Company.....	61	National City Bank of Cleveland.....	71
DeLuxe Check Printers, Inc.....	5	National City Bank of New York.....	79
C. J. Devine & Co.....	9	National Shawmut Bank of Boston.....	75
Felt & Tarrant Manufacturing Company.....	8	National Surety Corp.....	2
Fireman's Fund Group.....	69	New York Trust Company.....	53
First National Bank of Chicago.....	59	Northern Trust Company.....	66
First Wisconsin National Bank.....	14	Omaha National Bank.....	68
Fulton National Bank.....	68	Philadelphia National Bank.....	4
General Electric Company.....	10	Public National Bank and Trust Company.....	75
General Motors Acceptance Corporation.....	11	R. G. Rankin & Co.....	70
Guaranty Trust Company.....	60	Royal Bank of Canada.....	12
Hay-Adams House, Washington, D.C.....	11	Recordak Corporation.....	47
Home Insurance Company.....	Cover III	Sengbusch Self-Closing Inkstand Company.....	70
Institute of Bank Stationers.....	11	Standard Accident Insurance Company.....	63
Iowa-Des Moines National Bank & Trust Company.....	12	Todd Company, Inc.....	Cover II

Consumer Credit Service

W. F. KELLY, Manager, Time Sales Division, The Pennsylvania Company, Philadelphia, before the BANKERS ASSOCIATION FOR CONSUMER CREDIT.

IN describing the finance business or the consumer credit field it has been said that the business is a highly specialized one, consisting of infinite detail and requiring unceasing care if loss is to be avoided. I thoroughly agree with this statement and my experience in the past four years with the Pennsylvania Company handling this field of finance has brought these points home to me on many occasions.

First of all, a complete and accurate accounting and book-keeping system must be set up to supply adequate records as well as indispensable statistical information. There is so much detail connected with the business that there is always a possibility that costs of operation might get out of line if particular attention is not paid to this portion of your operation and we learned that this attention must be given very early in your venture and not after you have gotten well under way.

Care must be exercised in the development of your collection procedure. Instalment accounts should be followed closely and machinery must be set in motion to collect past due accounts within a few days after the date the instalment falls due. In any type of consumer credit you will find it difficult to bring accounts up to date once they have been permitted to fall behind. Except in the case of personal loans, I believe you will find it necessary to engage in outside collection work directly contacting the delinquent borrowers. These men will be responsible, to a large extent, for the public reaction to your operation and they should be thoroughly experienced.

Banks are accustomed to hiring out money for an interest charge commensurate with the risk. The money that is employed in consumer credit is, in my opinion, of less importance than the service that is sold to the borrower. The considerably higher gross charge that is paid on our business is justified by the service that we dispense in advancing small sums of money and collecting such advances over a period of time. The finance companies and, in a sense, the loan companies with which we are competing, sell service and not money. They sell it to their borrowers and their dealer customers to an extent where each expects it.

Banks must meet this requirement and must provide themselves with the facilities to take care of their customers promptly and efficiently. In granting loans or passing credit on instalment paper submitted to them, banks, generally, have been prone to take entirely too much time in arriving at a decision. It is the bank's job to speed up its service and at the same time obtain all of the available information. In sections where competition is keen, I think you will find that the average time required to pass an individual credit will not exceed 24 hours. If we are to build for the future in this business we must give such service and not depend on an interest rate or similar advantage that may be merely temporary.

I would like to suggest that consideration be given to the establishment of reserve accounts for credit losses. All operations in this field should recognize the catastrophe hazard that might result from unusually depressed business conditions or other situations that could not be readily foreseen. Consequently, reserves that are adequate for ordinary losses should be increased enough to provide a fund that can be built up as a bolster to your outstanding paper.

THE CHASE NATIONAL BANK

OF THE CITY OF NEW YORK

Statement of Condition, June 30, 1939

RESOURCES

CASH AND DUE FROM BANKS	\$1,208,137,695.47
BULLION ABROAD AND IN TRANSIT	6,841,148.65
U. S. GOVERNMENT OBLIGATIONS, DIRECT AND FULLY GUARANTEED	835,044,606.29
STATE AND MUNICIPAL SECURITIES	117,595,990.20
STOCK OF FEDERAL RESERVE BANK	6,016,200.00
OTHER SECURITIES	155,648,757.85
LOANS, DISCOUNTS AND BANKERS' ACCEPTANCES	575,427,173.17
BANKING HOUSES	33,857,363.26
OTHER REAL ESTATE	8,391,925.40
MORTGAGES	10,643,688.51
CUSTOMERS' ACCEPTANCE LIABILITY	16,956,091.56
OTHER ASSETS	8,874,680.74
	<u>\$2,983,435,321.10</u>

LIABILITIES

CAPITAL FUNDS:

CAPITAL STOCK	\$100,270,000.00
SURPLUS	100,270,000.00
UNDIVIDED PROFITS	30,819,439.57
	\$ 231,359,439.57

DIVIDEND PAYABLE AUGUST 1, 1939	5,180,000.00
RESERVE FOR CONTINGENCIES	16,030,956.02
RESERVE FOR TAXES, INTEREST, ETC.	2,037,784.60
DEPOSITS	2,696,486,353.65
ACCEPTANCES OUTSTANDING	18,446,987.22
LIABILITY AS ENDORSER ON ACCEPTANCES AND FOREIGN BILLS	6,838,784.97
OTHER LIABILITIES	7,055,015.07
	<u>\$2,983,435,321.10</u>

United States Government and other securities carried at \$95,776,758.60 are pledged to secure public and trust deposits and for other purposes as required or permitted by law.

Member Federal Deposit Insurance Corporation

It's Time for Business to Speak

A BOOKLET issued by BANKING, *Opinions and Facts*, goes farther than merely urging Business to speak up. It suggests what kind of things to say. The ideas embodied in its nine pages have given rise to much favorable comment from business men, bankers and the press.

For example, the president of a large savings bank writes: "As soon as my first caller left I picked up *Opinions and Facts* and read it from 'It' to 'profits'. It is sound and made me look around for my copy of BANKING. As a reflex, I suppose. But that was not the point. If the fact method is used in business, business can use the fact method with the public. Getting the facts that underlie policy and management is the first step toward getting the facts that stockholders and the public want to know. Assumptions instead of facts are the great curse of mankind, especially businessmankind."

Opinions and Facts was shortly followed by — *And Facts!* which went into considerably more detail in formulating a program for doing the business-speak-up job. It was "BANKING's analysis of who, how, where, when and what. . ." These five questioning words may be briefly answered thus: Who? The economic middle-class—and especially its opinion-makers. How? By using advertising space. Where? In carefully selected magazines of informative nature, like BANKING. When? Now—and for the next few years. What? By the development for each business of "a public credit file of facts."

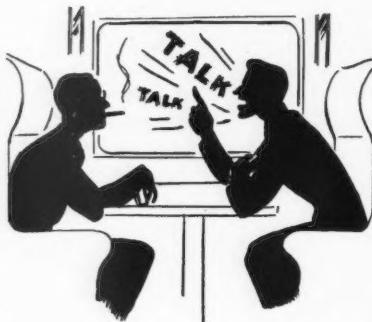
ADVERTISING OPINION

UNDER the heading, "Is management worth its salt? How business should tell public relations story", *Printers' Ink* for July 7 says: "Over on page 19 of an interesting bit of promotion material which came to the writer's desk the other day was this statement: 'Business has yet to present corporate facts to substantial opinion-making groups persistently month after month, officially, over its own signature, in paid space, addressed, in readily understandable terms, to the economic middle class of this country.'

"If this statement were made at an advertising convention or by an agency man, it wouldn't make news. It is made, however, by BANKING, official journal of the American Bankers Association; and the publication proceeds to sell

the idea in an interesting presentation. . . .

"There are too many examples of business men talking only to their own kind, carrying linoleum to Lancaster.



Those men are already sold. The economic middle class is the natural ally of business and at the same time the greatest single political force in the country. The small business men, skilled artisans, professional people, all desire to inform themselves. How should these people be informed, asks BANKING. Its answer: 'By using advertising space.' Its reasons:

1. Advertising is official.
2. Unlike publicity, it can't be altered or subjected to interpretation.
3. Paid advertisements are public property and thereby more potent than direct mail. If direct mail is desired and suitable lists are found, reprints of page advertisements make ideal material. . . .

"There is a real responsibility resting on the head of each business to see that the economic middle class understands more than what his product is and can do for them. If profits and the profit system are going to continue, the co-operation of intelligent labor and the great middle class of America is essential. If they are to cooperate intelligently, they must be informed completely as to the facts about each corporation.

"What could be a bigger and more important responsibility for the head of a business?"

In its discussion of what to say, *And Facts!* points out: "When a bank makes a loan to a business, it expresses concretely its faith and belief in that business and its management. What con-

tributes to create that necessary belief?

"These facts: the management of the business; its personnel; its record of accomplishment; its character; its ability, not only to make money, but to get along with its employees, to keep its stockholders satisfied, to buy fairly, to produce economically and continuously, and to merchandise and sell its goods in such a way that the market will be held and developed further."

FURTHER FACTS

THESE additional facts are necessary, says the booklet: "The financial history of the company, the current financial record of the company, the details of its corporate set-up, its reputation in the trade, its distribution methods, its standing in its own community."

The booklet goes on to say:

"Upon such data, carefully accumulated and confidentially held, a bank decides whether to extend or withhold its faith—its credit.

"The same type of material which induces faith in the banker in large measure will induce faith and belief among the public.

The reasons for the faith of the banker and that of the ordinary citizen may differ in detail. They will not differ in essentials. The banker is trained



to recognize the implications in corporation history and statements; to others, the corporation itself must interpret these implications in simple, straightforward terms."

This information, useful to banker and public alike, will constitute a "public credit file of facts."

